Department of Indian Affairs and Northern Development
Corporate Services
Departmental Audit and Evaluation Branch

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Audit of the Capital Projects and Operating and Maintenance Funding Management Regimes

Project 95/06
June 1997

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Executive Summary

In response to concerns raised by the Auditor General in his 1995 report, the Departmental Audit and Evaluation Branch initiated an internal audit of the Capital Projects and Operating and Maintenance Funding Management Regimes within the department.

The primary objective of this audit was to examine the Capital Projects and Operating and Maintenance (O&M) Funding Management regimes in order to assess specific procedures related to:

- Risk assessment;
- Value-for-money;
- Project delivery;
- Assurance of adequate maintenance; and
- Compliance with departmental requirements in the planning, implementation and evaluation of capital projects.

The audit was national in scope, and involved visits to eight regions. The audit fieldwork included identification of the procedures, processes and requirements that constitute the management regime for capital projects and O&M in the regions.

A project advisory committee consisting of management and regional representatives was formed to assist the audit team in carrying out the audit.

Overall, staff within the regional offices is aware of their commitment to promote the devolution of programs and are continually working toward improving the way they do business with First Nations. However, the department is continually challenged with balancing its responsibility for accountability to the Canadian public and its long term objective to devolve. During the audit fieldwork, it was obvious that this dilemma was felt throughout the organization and First Nation communities.

In an effort to overcome these challenges, the department has organized a number of workshops for regional staff. These workshops provide a forum to discuss issues and problems as they arise and assist in the formulation of resolutions. To supplement this effort a discussion paper was developed for staff and management. These efforts are a good start in meeting the challenges for management of funding capital projects and O&M, and the recommendations contained in this report supplement this effort.

The following are the conclusions reached regarding each of the five audit objectives.

Risk Assessment

In an environment of fiscal prudence, the department is committed to identifying efficient means of managing the funding of the program while maintaining an appropriate level of accountability. With devolution, the department is exposed to the possibility of funds provided to First Nations not being used for the intended purposes. A risk assessment approach is a method used to assist management in the identification of areas of greatest exposure.

One approach to risk assessment currently performed by the department is that of defining a cut-off based on the dollar size of the project. In addition to the dollar level cut-off for monitoring, the regions also perform a technical capability assessment of the First Nation before entering into an arrangement to fund a capital project. While this latter practice is encouraged, it is generally informal and not documented to support decisions made. The absence of supporting documentation can have a negative impact on the department's accountability.

Value-for-Money

Approval for the funding of the project is based on an adequate assessment of the alternatives with associated costs estimated and the risks identified for each alternative. As a funding agency, the department is faced with the challenge of transferring the requirement for project evaluation to First Nations while maintaining a level of comfort for the appropriate selection and adequate delivery of a capital project. Project evaluation, however, continues to be a significant part of the day-to-day activities carried out by the regions.

Project Delivery

Departmental managers and staff are mindful that the department is no longer involved in project delivery. Work is being conducted by headquarters to develop a framework to ensure proper delivery of projects and adequate maintenance is carried out. However regional staff continue to be unclear how parts of this framework are consistent with the objective to devolve.

Ensuring that Adequate Maintenance is Carried Out

The department is currently considering expanding the Asset Condition Reporting System (ACRS) inspection process to include an assessment of the maintenance carried out on the asset. This assessment will provide information related to the level of maintenance performed in the past on a specific asset. The assessment cannot be used to ensure the maintenance of the asset in the future but can assist management to identify areas of risk that require greater attention from the department.

Compliance with Departmental Requirements in the Planning, Implementation and Evaluation of Capital Projects

The findings of this audit are consistent with those contained in the Auditor General's report. The regional fieldwork visits and file reviews confirmed that there are cases of non-compliance with departmental requirements.

Audit Recommendations

The audit report provides the following ten recommendations:

1. (a) The Director General of the Socio-Economic Policy and Programming Branch should replace the current target exercise and clearly establish the objective for funding capital projects on a long-term basis which can then be translated into shorter term operational objectives.

   (b) Regional Directors General should measure performance against these objectives and report the results to the Director General of the Socio-Economic Policy and Programming Branch.

2. The Director General of the Socio-Economic Policy and Programming Branch in cooperation with the Director General of the Finance Branch should undertake a review to determine how funds should be best allocated to all regions. The review should clearly state both the rationale for selecting the allocation method and the specific roles of the Director General of Finance and each regional office. Funding allocations for capital projects should comply with the objectives of the department.

3. The Director General of the Socio-Economic Policy and Programming Branch in consultation with the Director General of the Finance Branch should clearly define its approach for the inclusion of certain types of infrastructure in the First Nation's master funding arrangement.

4. The Regional Directors General should ensure that regional capital plans reflect projects that are supported by the First Nations community physical development plans and the objectives established by the department.

5. The Director General of the Socio-Economic Policy and Programming Branch should review the feasibility and financial impact of allowing preliminary asset information in Capital Asset Inventory System (CAIS).

6. The Regional Directors of Funding Services should enforce the requirement for a First Nation's maintenance management plan. Where a First Nation recommends a suitable alternative, the alternative should be clearly articulated in the terms and conditions and enforced, if appropriate.

7. The Director General of the Socio-Economic Policy and Programming Branch in consultation with the Director General of the Finance Branch and the Regional Directors General should develop a standard checklist for each project file. The checklist should include:

   - minimum documentation and consideration requirements for the project; and
   - a statement communicating the responsibilities for each level of authority.

8. (a) The Director of the Transfer Payments Directorate at headquarters should establish basic guidelines for the development of terms and conditions in funding arrangements based on an assessment of the First Nation.

   (b) The Regional Directors of Funding Services should ensure the risk assessment and conclusion are documented in regional capital project files.

9. The Director General of the Finance Branch, in consultation with the Director General of the Socio-Economic Policy and Programing Branch should finalize guidelines for regional staff related to the level of monitoring required by the department. These guidelines need to be reflected in the terms and conditions of funding arrangements.

10. The Director General of the Information Management Branch should evaluate the benefit to First Nations for obtaining the performance information through an annual report.

Section 1 - Introduction

Background

In response to concerns raised by the Auditor General in his 1995 report, the Departmental Audit and Evaluation Branch initiated an internal audit of the Capital Projects and Operating and Maintenance Funding Management Regimes within the department. Specific issues raised in the Auditor General's report included the implementation of departmental procedures for funding capital projects and O&M. The purpose of this internal audit is to assist departmental managers to address these concerns.

The Departmental Audit and Evaluation Branch engaged Coopers & Lybrand Consulting to perform the audit. During this project we worked closely with Departmental audit staff and program managers and would like to thank them for their co-operative support throughout.

Objectives and Scope

The primary objective of this audit was to examine the Capital Projects and Operating and Maintenance Funding Management regimes in order to assess specific procedures related to:

- Risk assessment;
- Value-for-money;
- Project delivery;
- Assurance of adequate maintenance; and
- Compliance with departmental requirements in the planning, implementation and evaluation of capital projects.

The audit was national in scope, involving all regions, with interviews and fieldwork completed in the following locations:

- British Columbia
- Alberta
- Saskatchewan
- Manitoba
- Quebec
- Ontario
- Atlantic
- Yukon

Management involvement was an integral component of this audit and a Project Advisory Committee was formed to work with the audit team. The Project Advisory Committee for the ***Internal Audit of the Capital Projects and O&M Funding Management Regimes*** included:

- Morris Redman, Project Authority, Departmental Audit and Evaluation Branch;
- Robert Sterling, Senior Program and Implementation Advisor, Social and Economic Policy and Programming (SEPP);
- Alex Dunne, Program Analyst, SEPP;
- Rod MacLean, Director, Strategic Development and Transfer, Public Works and Government Services Canada;
- Robb Knight: Officer, Transfer Payments Directorate;
- Maureen Coughlin: Acting Manager, Resource Requirements and Allocation, Finance Branch; and
- Diane Roddick: Manager, Data Operation, Information Management Branch (IMB).

Regional audit personnel were also included throughout the project. Information was shared with the regional contacts either through update meetings or through workshops with the Project Advisory Committee.

The audit fieldwork included:

- identification of the procedures, processes and requirements that constitute the management regime for accountability of capital projects and O&M in the regions;
- examination of documentation for departmental procedures;
- interviews with headquarters staff,
- interviews with First Nations;
- review of documentation for a sample of Capital Projects; and
- interviews with DIAND staff in the regions.

The fieldwork was conducted in July and August 1996 and the findings presented in this report are based on the fieldwork at that time. Upon completion of the fieldwork, a workshop was held with members of the Project Advisory Committee and regional representatives to share the information gathered from the fieldwork, discuss the emerging issues and develop practical recommendations to realistically and pragmatically address these issues. The report was also discussed with regional and headquarters representatives at a meeting in Toronto (December 1996).

Capital Projects and O&M Funding Management Regimes

DIAND provides financial assistance for the construction, maintenance and operations of facilities to provide basic services to First Nations communities. Some examples of these basic services and facilities include:

- treatment capacity for water and sewage;
- solid waste disposal;
- road construction and maintenance;
- schools and other education related facilities including youth recreational centres;
- provision of electricity on reserve; and
- fire protection capacity.

Education, residential housing, social assistance and local government support are funded separately and are not included in the capital projects and O&M funding activity. Planned expenditures for capital projects and O&M in the fiscal year 1996-1997 are $777 million. Approximately two thirds of this amount is allocated to the development of capital projects and the remaining one third supports ongoing operation and maintenance.

Roles and Responsibilities

Through the process of devolution, DIAND is progressively reducing its involvement in the direct delivery of capital projects and O&M activities. Increasingly, First Nations are delivering these services and are responsible for the construction and maintenance of facilities. Currently, DIAND sees itself as the funding agency for these activities. As a funding agency, the department provides the funds under the terms and conditions of negotiated arrangements and monitors compliance with the terms and conditions.

Capital Projects and O&M Life Cycle

The life cycle functions involved in delivering capital projects and O&M activities include:

- Planning;
- Resource Allocation;
- Funding Mechanisms;
- Implementation; and
- Evaluation.

These functions are summarized in **Exhibit 1.** As the exhibit illustrates, both Capital Projects and O&M begin with a plan. Resources are then allocated based on this plan, and the appropriate funding mechanism is used to distribute the funds to First Nations. Following the distribution of funds, capital projects and O&M are ready for implementation. The information obtained during the evaluation process serves as input into the planning process, and the Life cycle repeats itself.

For each of the key functions, detailed process maps and control matrices have been developed, and are provided in Annex. The process maps illustrate the detailed steps and the associated responsibility centre for each function identified in Exhibit 1.

The control matrices document the detailed process steps which are identified in the accompanying process maps, and identify the corresponding objective for carrying out the process step, list the high level controls identified for each process step, and provide an overall assessment of compliance with current procedures. The overall assessment is a summary of the individual assessments documented for each region.

Below is a brief description of the current procedures involved in funding and delivering capital projects and O&M. This description will provide background information for the following section.

Capital Projects

- **Planning and Resource Allocation**

  These processes have been grouped together as current practices do not follow the traditional method of first preparing a plan and then allocating resources based upon the plan.

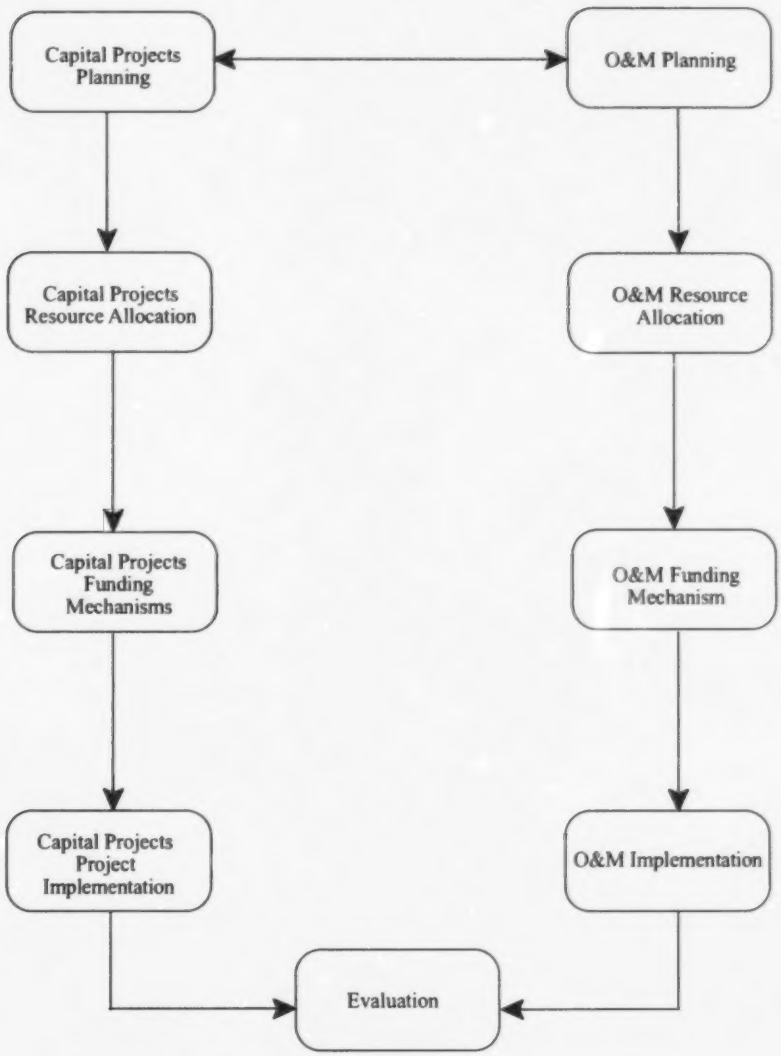
  Performance targets are submitted to headquarters in May of each year. The targets are meant to determine how the long term objectives of the department will be met. The targets are simply dollar value and number of unit estimates for pre-established categories of capital projects. Regions also submit a listing of planned capital projects exceeding $1 million to headquarters for inclusion in the Main Estimates[1].

  In the following February, regions will receive the capital project's allocation from headquarters. The allocation for each region's non-residential capital continues to be held constant and is based on each region's percentage share of total need identified in 1990.

[1]The Main Estimates outline spending which Parliament will be asked to approve and additional detail in terms of the results expected for the money spent.

Exhibit 1

Capital Projects and O&M Life Cycle



Once the dollar allocation is known, regional plans are developed based on the First Nations capital plans or specific First Nation identified projects. First Nation plans are then reviewed and consolidated to formulate a regional capital plan. The projects identified within the regional capital plan are prioritized to ensure concurrence with the national priorities.

The regional capital allocation is segregated into categories. Generally these categories consist of education, water and sewer and other infrastructure (for example, roads, bridges and fire protection). Within the education and water and sewer categories, projects are prioritized. Each region has developed a formula to assign a quantitative ranking for qualitative factors within each category. Those projects with the highest priority are funded to the extent of the amount allocated to that category by each region.

Other infrastructure generally consists of roads and bridges, electrification, fire protection and community buildings. With the exception of one region, this category is funded to individual First Nations based on the per capita formula.

Operations and Maintenance

- **Planning and Resource Allocation**

Regions do not perform planning for the use of O&M funding. O&M funding is provided to First Nation communities for the maintenance of capital assets. The process for funding this activity begins when resources are allocated to the regions and, for this reason, the O&M planning and resource allocation processes are combined for discussion.

Regions receive an allocation for O&M funding from headquarters based on a formula. The components of this formula consist of: the number of units as determined by the type of asset; the average unit cost required to operate and maintain a capital asset to generally accepted standards; and, in some cases, a discount factor. The discount factor is based on the concept that First Nations are responsible for a portion of the O&M cost of the capital asset.

Regions subsequently allocate this funding to First Nations based on a regional variation of the formula used to allocate the funds from headquarters to the regions.

- **Funding Mechanisms and Implementation**

The processes for funding mechanisms and implementation of capital projects and O&M have been combined. Generally, terms and conditions of funding mechanisms precede implementation.

- **Funding Mechanisms**

  A standard set of terms and conditions exist to fund capital projects. These terms and conditions may be modified based on the First Nation's management capabilities. Funding for O&M falls within the First Nation's master funding arrangement.

- **Implementation**

  Capital project implementation consists of three distinct phases:

  - the design phase is the process whereby feasibility studies are reviewed and evaluated. The evaluation is generally conducted by both the Real Property Services Unit for DIAND and the regional capital project managers. During this phase an option is selected and the design of a capital project is funded. The design constitutes the basis for the construction phase;

  - the construction phase consists of the actual construction of the capital project. Regions monitor the progress of these projects through regular site visits; and

  - the completion phase is the final phase of the project whereby regions ensure that the project was completed according to the terms and conditions and that the asset is accounted for in the Capital Asset Inventory System (CAIS).

The O&M implementation is the responsibility of First Nations. Monitoring of O&M implementation occurs as part of the (ACRS) process. This process, which is described in detail later in this section, allows the department to inspect facilities on a five-year cycle. Occasionally, inspections are performed on assets not included in the ACRS cycle for a given year.

Evaluation

The evaluation of capital projects and O&M funding is performed through the year-end financial reporting and required inspection processes.

- **Year-end Financial Reporting**

  First Nations are required to submit audited financial statements within ninety days of their fiscal year end along with any additional schedules as required by the department's reporting handbook. If the financial statements are not received within that timeframe, all or a portion of non-mandatory funding is withheld. One region does not withhold capital funding as this may result in construction penalties and additional expenses to a project.

The financial statements are analysed when received by the department. The analysis includes a reconciliation between the funding provided by the department and the funding reported in the financial statements. An analysis of the First Nation's financial health is also performed based on financial ratios and liquidity indicators. This information is used to assess band capabilities and the need for additional conditions under the funding arrangements. The analysis may result in the implementation of a remedial management plan. The First Nation is advised of the results of the review.

- **Required Inspections**

All First Nation capital assets funded by the department undergo a physical inspection on a five-year cycle. The results of the inspections are included in the ACRS. The ACRS inspections are performed either by qualified staff through external consultants or First Nations technical service organizations. The process is generally overseen by Real Property Services for the department. Inspections on assets which are not part of the ACRS process in a given year may or may not be inspected.

Section 3 - General Assessment

Introduction

"The department is ... committed to the continuing devolution of programs to First Nations..."

This statement, made in the Minister's overview of the 1996-1997 Estimates, is reflected throughout the department's 1996-1997 Business Plan. Both First Nations and the department recognize the importance of clear accountability with respect to the allocation of public dollars. Significant energy and effort have been focused on developing more effective ways to manage funding activities with the view to supporting devolution of program delivery to First Nations as a critical priority for both DIAND and First Nations.

The 1996-1997 Business Plan directs the department to continue to focus on the long term sustainability of key programs such as construction of water and sewage facilities and other basic services which the Canadian public generally has come to expect. In addition, the plan expects devolution activity to continue at an accelerated rate in order to support the goals of the Government and First Nations.

Overall, staff within the regional offices is aware of these commitments and is continually working toward improving the way they do business with First Nations. The assessment to follow is based on interviews with regional staff involved with the management of funding capital projects and O&M and selected members of First Nation communities.

There continue to be challenges in the realization of the departmental goal of devolution as it applies to capital projects and the related O&M program. As mentioned in a draft discussion paper produced by DIAND in May 1996, the Canadian public and First Nation members are rightly demanding strong accountability with respect to the use of funding by the department and First Nations. Through the process of devolution, the department is aiming to progressively reduce its involvement in the direct delivery of capital projects and the related O&M. However, the department faces balancing its responsibility to the Canadian public with its long term objective to devolve. This dilemma is felt throughout the organization and First Nation communities.

In an effort to overcome these challenges, the department has organized a number of workshops for regional staff. These workshops are meant to provide a forum for regional staff to discuss issues and problems as they arise and assist in the formulation of resolutions. It is recognized that a national initiative requires a national strategy and co-ordination. Any national strategy developed must reflect the reality that regional offices are closest to the First Nations and that First Nations are closest to their constituents and ensure accountability is maintained at all levels.

In the May 1996 draft discussion paper noted above, the department has begun to initiate efforts to develop a national strategy. Specifically, three steps were formulated to:

- review with each First Nation the extent to which its accountability framework is in place and to set up a development plan where there are gaps;
- adjust the terms and conditions of all DIAND funding arrangements to require this accountability framework be kept in place; and
- review the reporting requirements to determine if the data being collected is appropriate given increasing First Nation control over service delivery.

This is a good start in meeting the challenges for the management of funding capital projects and O&M, and the recommendations contained in this report supplement this effort.

Assessment by Audit Objective

The audit addressed five specific objectives. Below is a summary of the assessment for each objective. As indicated in Section 1 to this report the objective of the audit was to review and assess the procedures related to:

- risk assessment;
- value-for-money;
- project delivery;
- ensuring that adequate maintenance is carried out; and
- compliance with departmental requirements in the planning, implementation and evaluation of capital projects.

This section also provides a summary of best practices identified during the audit. The following section provides a detailed description of the individual findings and recommendations.

Risk Assessment

In the past, the delivery of capital projects was solely the responsibility of DIAND. As a result of the department's commitment to devolve, the delivery of capital projects and O&M is now the responsibility of First Nation communities.

In an environment of fiscal prudence, the department is committed to identifying efficient means of managing the funding of the program while maintaining an appropriate level of accountability. With devolution, the department is exposed to the possibility of funds provided to First Nations not being used for the intended purposes. A risk assessment approach is a method used to assist management in the identification of areas of greatest exposure.

One approach to risk assessment currently performed by the department is that of defining a cut off based on the dollar size of the project. This cut-off is used to identify those capital projects that require closer monitoring by the department. The terms major and minor, single capital contribution and band-based capital, and non-core and core funded projects are used to define this cut-off level. These terms are not used consistently within the department resulting in different cut-off levels for monitoring.

In addition to the dollar level cut-off for monitoring, the regions also perform a technical capability assessment of the First Nation before entering into an arrangement to fund a capital project. A capability assessment identifies strengths and weaknesses of First Nations in the delivery of capital projects. While this practice is encouraged, it is generally informal and not documented to support decisions made. The absence of supporting documentation can have a negative impact on the department's accountability. For example, a region may decide that a First Nation community is capable of delivering a capital project subject to limited monitoring by the department. If circumstances prevail and the funds provided are not used appropriately, the department may need to justify its initial decision for limited monitoring. Adequate documentation will facilitate the investigation of this situation.

In recognition of the need for a risk assessment approach, the department has agreed to apply risk assessment to the ACRS inspection process. This will be done by limiting the assets subject to the ACRS inspection to schools and water and waste disposal systems. The potential lack of maintenance for these two types of assets has been identified as having the greatest risk to a First Nation community. Further, the ACRS inspection itself will be expanded to provide an assessment of the maintenance activities performed by First Nations.

Value-for-Money

Value-for-money was defined during the preliminary survey phase of this assignment as a process which begins when the need for a project is first identified. Approval for the funding of the project is based on an adequate assessment of the alternatives with associated costs estimated and the risks identified for each alternative. As a funding agency, the department is faced with the challenge of transferring the requirement for project evaluation to First Nations while maintaining a level of comfort for the appropriate selection and adequate delivery of a capital project. Project evaluation, however, continues to be a significant part of the day to day activities carried out by the regions.

Project Delivery

Departmental managers and staff are mindful that the department is no longer involved in project delivery. The Auditor General's report noted that "the department should strengthen its role in ensuring proper delivery of projects and, in particular, ensuring that appropriate maintenance is carried out on reserves." This statement does not necessarily require the department to increase its role in project delivery, but to develop a framework to ensure that adequate project delivery is being carried out. Currently, parts of this framework are being addressed. For example, the department has developed a new funding arrangement to encompass changes to the department's relationship with First Nations. However, based on discussions with regional staff, they are not clear how some of the parts being addressed will develop into the overall framework.

Ensuring that Adequate Maintenance is Carried Out

As mentioned above, the department is currently considering expanding the ACRS inspection process to include an assessment of the maintenance carried out on the asset. This assessment will provide information related to the level of maintenance performed in the past on a specific asset. The assessment cannot be used to ensure the maintenance of the asset in the future but can assist management to identify areas of risk that require greater attention from the department.

Compliance with Departmental Requirements in the Planning, Implementation and Evaluation of Capital Projects

The findings of this audit are consistent with those contained in the Auditor General's report. The regional fieldwork visits and file reviews confirmed that there are cases of non-compliance with departmental requirements. For example, one reason mentioned by the Auditor General in his report was that project files are not kept up to date. Regional staff is aware of this finding but have also indicated that the reason for non-compliance is that some of the current procedures do not reflect and are not consistent with the long term objective of devolution. For example, both the documentation and monitoring requirements have remained unchanged.

Best Practices

Departmental personnel are continuously working to improve their practices and to learn from the lessons of their colleagues. The following "best practices" were identified during the regional visits, and should be considered for wider application:

- *the development and use of a capital projects approval process manual.* Having a well-documented process is the first step toward ensuring compliance. The manual details the steps involved in the capital project approval process including the need for minimum documentation requirements;

- *sharing of expertise with and amongst First Nations and training to First Nations.* First Nations must be properly prepared to be able to increase their role in the delivery of capital projects and O&M. The department is achieving this through various means :

  - First Nations involvement in the planning and approval of capital projects;

  - providing First Nations with the department's documented procedures and training on the use of the procedures;

  - joint seminars between First Nations and the department to address issues;

  - sponsoring seminars for First Nations to gather and share experiences; and

  - providing training seminars to First Nations for the maintenance of capital assets;

- *development of systems to track capital projects in progress and monitor receipt of required reports.* Most regions have implemented a system to track capital projects in progress. The system is used to monitor funds committed for a capital project versus funds provided to the project. Some regions have also integrated the reporting requirements into the system to assist them to better monitor the receipt of reports; and

- *use of a numerical priority ranking system for the approval of capital projects.* Such a system assists in ensuring objective allocation of resources. As projects are submitted for approval, each project is assigned a numerical priority based on pre-established guidelines. The ranking system places the highest priority on health and safety issues which are in accordance with the department's priorities.

Many, if not all, of these best practices, can easily be transferred to First Nations. The responsibility for implementing the best practices described above, however, will depend on the relationship between the regional office and the First Nations Community.

Section 4 - Findings and Recommendations

This section provides the findings observed during the audit. As discussed in section 2 of this report, the capital projects and O&M cycles follow key functions. The findings included in this section are grouped within these functions.

Capital Projects

Finding 1: **Establishing and Monitoring Operational Targets**

Long-term capital project targets are provided by headquarters to the regions. Regions, in turn, must determine, for each of the next five years, the dollar values and the number of units allocated to pre-established categories for capital projects. For example, the regions determine the number of m^2 of school space and the total dollars committed to school construction to fulfil pre-established targets.

The purpose of establishing targets should be to provide a method for measuring performance. However, some regions have indicated that the current process is not a valuable exercise. The regions have not recently received any feedback from headquarters on this matter and generally do not refer back to the targets as a measurement of performance. One region has decided to discontinue this exercise. The region feels that this exercise does not reflect the needs of the First Nation communities and unless this information is useful and the exercise is perceived as appropriate, why continue to expend limited resources. However, without these targets, a measure of operational performance is not available to both the regions and the department. Headquarters is aware of this concern and has been looking into this matter.

The annual update of targets is not directly based on the plans received from First Nations. The targets are updated, as described above, and submitted to headquarters in May while the regional capital plan is not developed until the following February or throughout the following year. Consequently, the process of setting the targets becomes a mechanical exercise rather than being the product of a planning exercise.

Recommendation 1:

(a) The Director General of the Socio-Economic Policy and Programming Branch should replace the current target exercise and clearly establish the objective for funding capital projects on a long-term basis which can then be translated into shorter term operational objectives.

(b) Regional Directors General should measure performance against these objectives and report the results to the Director General of the Socio-Economic Policy and Programming Branch.

Finding 2: **Allocation of Capital Funding**

Headquarters allocates funding to the regions based on percentages related to "total need" which has been in place since 1990. The department has stated in the 1996-1997 Estimates that "Priority will be given to projects that resolves health and safety issues ..." While this statement can be very valuable to the department in prioritizing capital projects for the following year, the term health and safety is too generic to develop specific priorities to form the basis for allocating funds.

If the department's objective is to be flexible enough to meet all First Nation needs in this category (i.e., a water and sewer project as well as First Nation offices and recreational facilities), this objective has not been clearly stated.

Recommendation 2: The Director General of the Socio-Economic Policy and Programming Branch in cooperation with the Director General of the Finance Branch should undertake a review to determine how funds should be best allocated to all regions. The review should clearly state both the rationale for selecting the allocation method and the specific roles of the Director General of Finance and each regional office. Funding allocations for capital projects should comply with the objectives of the department.

Finding 3: **Funding for Infrastructure**

Regional capital plans often do not reflect all capital projects to be funded. Some capital projects are funded based on a formula allocation to First Nations. This formula allocation recognizes that there is a basic need for certain types of infrastructure and these types of infrastructure are closer to operating expenditures than capital expenditures. The formula based allocation to First Nations allows First Nations to effectively plan for the use of such funding. The definitions of minor or core-funded capital vary from region to region resulting in an inconsistent approach to funding infrastructure.

Recommendation 3: The Director General of the Socio-Economic Policy and Programming Branch in consultation with the Director General of the Finance Branch should clearly define its approach for the inclusion of certain types of infrastructure in the First Nation's master funding arrangement.

Finding 4: **Development of Community Capital Plans**

The key to developing a regional capital plan is the development of appropriate plans by First Nations. A policy within some regions only allows approval for a specific capital project if that project is related to fulfilling a need identified in the community physical development plan.

Exceptions to this policy are permitted if adequately justified. In all other regions, there is no requirement for a community physical development plan. A community physical development plan is a process undertaken by the First Nations to develop a strategy for long term development of the community. The plan serves to focus the community on well planned and communicated development alternatives. In addition, the plan provides a linkage between the community's overall social and cultural goals and objectives and its physical development. While this plan identifies the needs of the community, it should be used as the basis for developing the First Nation capital plan for submission to the regions.

The development of a First Nation capital plan that is not supported by a community physical development plan poses a risk to the department that current capital projects will be inconsistent with the future requirements for the community. For example, enrolment projections are required for the construction of a new school. In part, these projections are a reflection of the growth of the community which should result in the identification of other capital project needs within the community. The collection of all identified needs in a single document should simplify the co-ordination of the planning of capital projects for that community.

Recommendation 4: The Regional Directors General should ensure that regional capital plans reflect projects that are supported by the First Nations community physical development plans and the objectives established by the department.

Operating and Maintenance

Finding 5: **Consistency of Data to Support Funding Allocation**

While the CAIS system forms the basis of funding allocations for O&M, inconsistencies exist regarding the data entered into this system. Seasonal restrictions within Canada generally result in a project being completed during the fall. The update to CAIS occurs annually in May. The information maintained in CAIS as of the May update forms the basis for the allocation of O&M funding from headquarters to the regions for the following fiscal year. The timing of the update can result in a project completed in the fall but only eligible to be entered into CAIS until the following May when completed. Consequently, the capital asset will not be specifically allocated any O&M funding until the following fiscal year. This constitutes a one and a half year delay from the time a capital asset is completed to the time it is allocated O&M funding. To compensate for this delay, some regions will enter capital assets expected to be completed in the fall to ensure O&M funding from headquarters is available on a more timely basis. This procedure is not consistent from one region to another resulting in unbalanced distribution of O&M funding. In addition, each region already receives an additional allocation of 2.8% of their initial non-residential capital allocation to provide O&M funding for capital projects which are completed mid-year.

Recommendation 5: The Director General of the Socio-Economic Policy and Programming Branch should review the feasibility and financial impact of allowing preliminary asset information in Capital Asset Inventory System (CAIS).

Finding 6: **Preparation of the Maintenance Management Plan**

One of the current standard conditions for O&M is the requirement for a maintenance management plan. While this plan is not required to be submitted to the region for O&M funding, the requirement for its existence is not being enforced by regions in cases where the plan is known not to exist. Regions and First Nations should be no less accountable for the use of O&M funding than for the delivery of capital projects. O&M plans can assist First Nation communities to prioritize maintenance activities and ensure capital assets are being maintained. In an effort to promote the enhancement of O&M practices on funded assets, regions assisted First Nation communities in the development of Maintenance Management Systems in 1989 through 1993. Funding in some regions was provided for the development of a system and for the staffing of a coordinator position for one year. In one region alone, the total funding for these systems was approximately $630,000. Although many of the First Nation communities abandoned the system, many of them were aware of the importance of a planned and systematic approach to facilities maintenance. For example, a First Nation community within another region has recently developed a new maintenance management system and is convinced that the system has reduced the overall cost of funding O&M activities.

Recommendation 6: The Regional Directors of Funding Services should enforce the requirement for a First Nation's maintenance management plan. Where a First Nation recommends a suitable alternative, the alternative should be clearly articulated in the terms and conditions and enforced, if appropriate.

Funding Mechanisms and Implementation

Finding 7: **Approval of Capital Projects**

The capital project approval process varies from region to region. In all regions, at some point, the appropriate authorities within the department provide their signatures to indicate approval of the project. For all projects, more than one authority is required.

Forms are used as a basis for communication between the regional office staff and the appropriate authority. The appropriate levels of authority must sign the forms to approve a project. While evidence for the approval of a project is required, the forms are not designed to ensure the responsibility for each level of authority.

As recommended in the Auditor General's report significant improvement is needed to comply with departmental requirements in ensuring proper delivery of capital and maintenance projects. The current procedures within the regions do not ensure these minimum documentation and consideration requirements are being met and, as such, do not provide a good example for First Nations to follow in the take over of the procedures.

Recommendation 7: The Director General of the Socio-Economic Policy and Programming Branch in consultation with the Director General of the Finance Branch and the Regional Directors General should develop a standard checklist for each project file. The checklist should include:

- minimum documentation and consideration requirements for the project; and
- a statement communicating the responsibilities for each level of authority.

Finding 8: **Establishing Terms and Conditions**

For capital projects, the terms and conditions within funding arrangements are based on the technical and project management capabilities of the First Nation and the First Nation's history for meeting the terms and conditions. In many of the capital project files reviewed, a risk assessment of the First Nation was not sufficiently documented to support the terms and conditions for the specific projects. The regions have stated that round table discussions take place to ensure the appropriate terms and conditions are established within the funding arrangement. While this process is required, it does not provide sufficient information for an independent reviewer to arrive at the same conclusion.

For O&M, standard terms and conditions are written into each of the funding arrangements available.

Recommendation 8: (a) The Director of the Transfer Payments Directorate at headquarters should establish basic guidelines for the development of terms and conditions in funding arrangements based on an assessment of the First Nation.

(b) The Regional Directors of Funding Services should ensure the risk assessment and conclusion are documented in regional capital project files.

Finding 9: **Consistency of Monitoring**

The department's level of monitoring varies significantly between capital projects and O&M, as well as, amongst regions. Currently, the level of reporting from First Nations to the department, the role of Real Property Services as a technical advisor to the projects, and the level of monitoring by the department are the same for all projects regardless of the capabilities of the First Nation. This includes the role of Real Property Services as a technical advisor in monitoring projects. The same O&M monitoring procedures are also applied to all First Nations regardless of their level of capability.

While O&M plans, however, provide some accountability for the allocation of funding, the plans do not ensure adequate maintenance is being performed. The department recently discussed the expansion of the ACRS process to include an assessment of the maintenance being performed in addition to assessing the current condition of the asset. The assessment will assist the department in determining whether maintenance funds have been expended for the intended purpose and that appropriate maintenance of the capital infrastructure on reserves has been carried out.

Recommendation 9: The Director General of the Finance Branch, in consultation with the Director General of the Socio-Economic Policy and Programing Branch should finalize guidelines for regional staff related to the level of monitoring required by the department. These guidelines need to be reflected in the terms and conditions of funding arrangements.

Evaluation

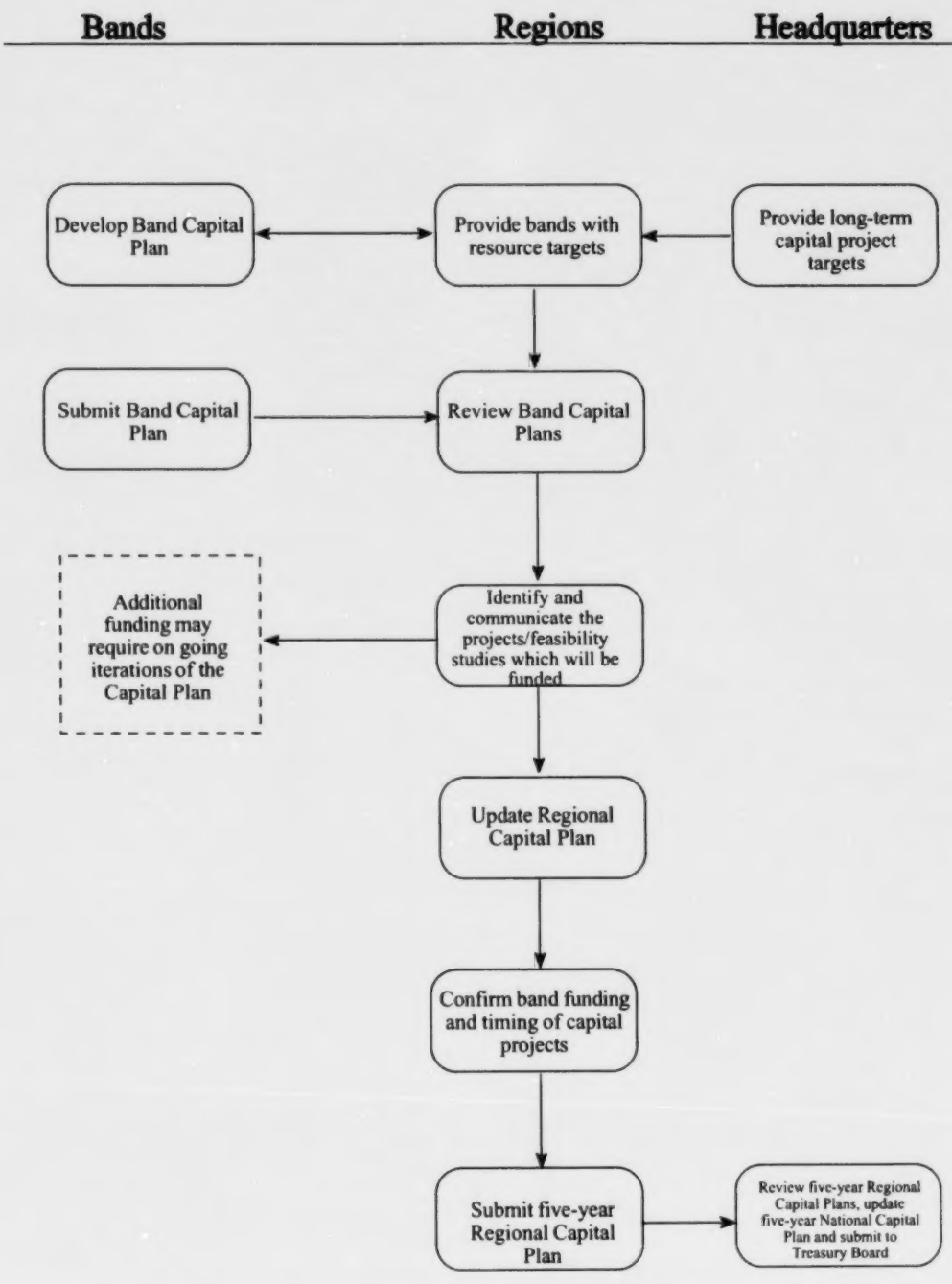
Finding 10: **Year End Reporting**

Currently, the department's evaluation process focuses on the year-end audited financial statements and the reporting handbook requirements. While the analysis of the financial statements is necessary, this analysis alone does not provide the department with sufficient information to assess the First Nation on a qualitative basis. The year-end handbook reporting requirements are to supplement the financial statements to assist in this qualitative analysis. However, because of the emphasis placed on conforming with the reporting handbook, First Nations view the reporting requirements as information required by the department rather than information which would be useful to report within their own community. Many organizations issue performance information in annual reports to convey both quantitative and qualitative information to members. A First Nation's annual report could be designed to include performance information required by the department and be useful to members of the community.

Recommendation 10: The Director General of the Information Management Branch should evaluate the benefit to First Nations for obtaining the performance information through an annual report.

Process Maps and Control Matrices

Capital Projects Planning

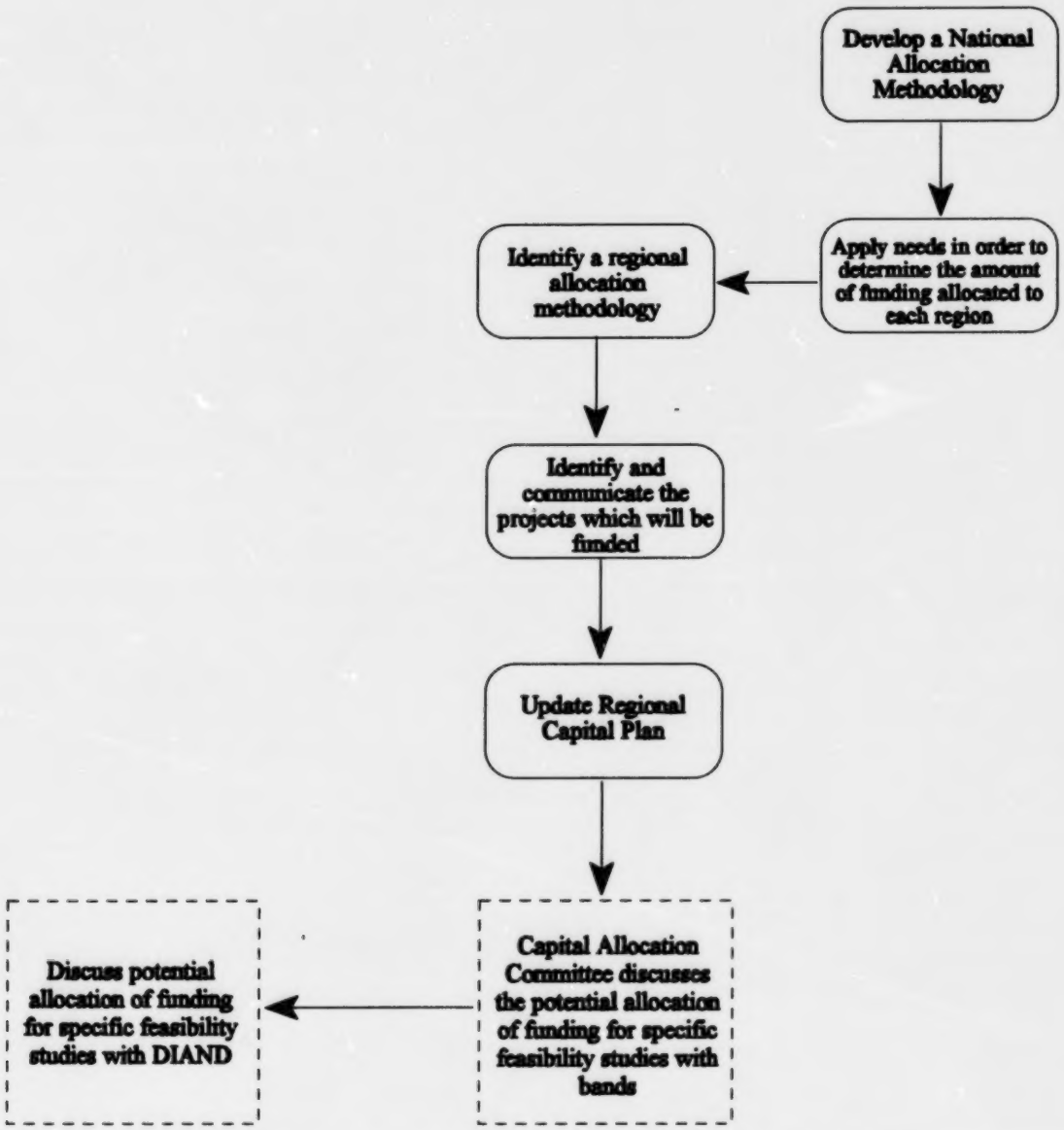

Bands
Regions
Headquarters
Develop Band Capital Plan
Provide bands with resource targets
Provide long-term capital project targets
Submit Band Capital Plan
Review Band Capital Plans
Additional funding may require on going iterations of the Capital Plan
Identify and communicate the projects/feasibility studies which will be funded
Update Regional Capital Plan
Confirm band funding and timing of capital projects
Submit five-year Regional Capital Plan
Review five-year Regional Capital Plans, update five-year National Capital Plan and submit to Treasury Board

Capital Projects Planning			
Process Step	**Objective**	**Controls**	**Assessment**
Provide regional operations targets	To ensure departmental targets are met.	The targets submitted by headquarters.	• Regions report every year against the target. • Some regions are ahead in meeting their targets. • Regions review targets annually and submit to headquarters.
Develop Band Capital Plan	To ensure that the bands identify and prioritise their needs for future allocations of funding.	Receipt of a Band Capital Plan by the region.	• Bands prepare five-year capital plans. • The plans are updated every year and submitted to the region. • Chief and Council approve the plan. • The regions review the plans and prioritise the projects based on the national infrastructure model. • Regions use the five-year band capital plans in order to develop the regional capital plan.
Provide bands with resource targets	To communicate to the bands their availability for future funding.	Regional targets and allocations are given immediately following confirmation of the Main Estimates. Regions receive their capital allocations for the upcoming years as well as targets to be met.	• Core funding is determined by region based formulas. • Non-core funded projects are prioritised based on the regional prioritisation methodology.
Submit Band Capital Plan	To ensure proper planning.	Requirements for AFA and FTA First Nations. Annual updates are reviewed.	• The band capital plans are submitted before the new fiscal year. • The band manager develops the band capital plan. • Core and non-core funded capital projects are included in the band capital plan.
Review Band Capital Plans	To determine eligibility for funding and identify major capital projects.	Review updates from previous year	• Regions review band capital plans continuously throughout the year. • A feasibility study is required, if considered necessary, for all non-core funded projects.

Capital Projects Planning			
Process Step	**Objective**	**Controls**	**Assessment**
Identify and communicate the projects and studies which will be funded	To prioritise the projects which should be funded based on health and safety, recapitalisation, growth etc. (prioritisation criteria).	Information is communicated to bands and written documentation is prepared.	• Regions inform the bands on those projects that have been approved from non-core funding. • Regions will not provide funding to bands who do not submit capital plans. • Bands are required to follow the capital plans submitted to regions.
Update Regional Capital Plan	To combine all the Band Capital Plans into a Regional Capital Plan which reflects the prioritisation for the future allocation of funding for capital assets.	The following are the major steps to be followed for approval for the Regional Capital Plan: • determining the capital needs for each region over a five-year time frame; • establishing five-year regional targets and allocations within the context of needs and resources; • plan development and approval; and • accountabilities.	• The region prioritises the band capital plans based on health and safety.
Confirm band funding and timing of capital projects			• Regions develop capital plans based on the funding received in the prior year.
Submit five-year Regional Capital Plan			• Regions enforce the submission of band capital plans because of the Treasury Board submission requirements.
Review five-year Regional Capital Plans and submit to Treasury Board as required	To cover the specifics of the Capital Program' management features so that they are supportive of increased ministerial authority and accountability.		

Capital Projects Resource Allocation

Bands **Regions** **Headquarters**

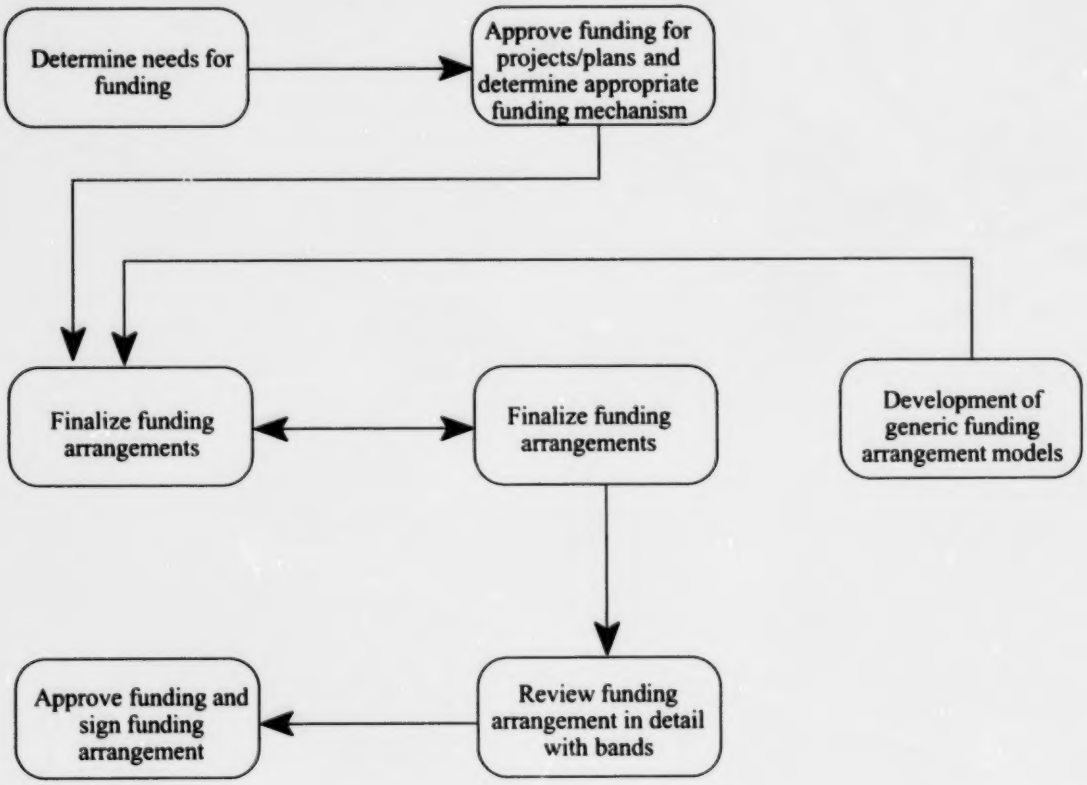

Develop a National Allocation Methodology
Apply needs in order to determine the amount of funding allocated to each region
Identify a regional allocation methodology
Identify and communicate the projects which will be funded
Update Regional Capital Plan
Capital Allocation Committee discusses the potential allocation of funding for specific feasibility studies with bands
Discuss potential allocation of funding for specific feasibility studies with DIAND

Capital Projects Resource Allocation			
Process Step	**Objective**	**Controls**	**Assessment**
Develop a National Allocation Methodology	To ensure that all regions are allocated funds for the capital projects based on equity allocation and to ensure that priorities for improvement of life on reserve gets appropriate funding.	Submit the National Allocation Plan to Treasury Board for approval.	Not applicable at the regional level.
Apply needs formula to determine the amount of funding allocated to each region	To communicate funds allocated to each region.		
Identify the methodology used by regions for allocating funds	To ensure adequate processes and procedures are in place.		• Regions allocate funding between core and non-core. • For core funding, the allocation to bands is based on a regional formula. • For non-core funding, each region has developed a priority rating system.
Identify and communicate the projects/plans which will be funded	To ensure that resource target prioritisation can be met.	Develop a regional model for future prioritisation of fund allocation following prioritisation policies.	

Capital Projects Resource Allocation			
Process Step	**Objective**	**Controls**	**Assessment**
Update Regional Capital Plan	To allocate funds into project specific categories and into minor/major classifications.	Regional plans are reviewed against the objectives outlined in the LTCP. Regions submit a CAMS update annually and other reports as required. Identify selected projects $10 milion. All selected projects $1 milion will have to be reported in Main Estimates. Update the Regional Model to include priorities. Ensure that the projects are selected primarily based on health & safety. Headquarters recommends that regions be responsible for 3.0% of the costs associated with emergencies.	• Regions will report all projects over $1 million to be included in the Main Estimates; however, during the course of the year circumstances may change which affect original priorities. • Projects over $10 million are rare. • Non-core funded projects are prioritised based on health and safety. • Regions may set aside a pool of funds to cover emergencies.
Capital Allocation Committee discusses the potential allocation of funding for specific feasibility studies with bands	To communicate potential allocation of funding.		• Regions set aside a portion of the allocation annually to meet the funding of feasibility studies.

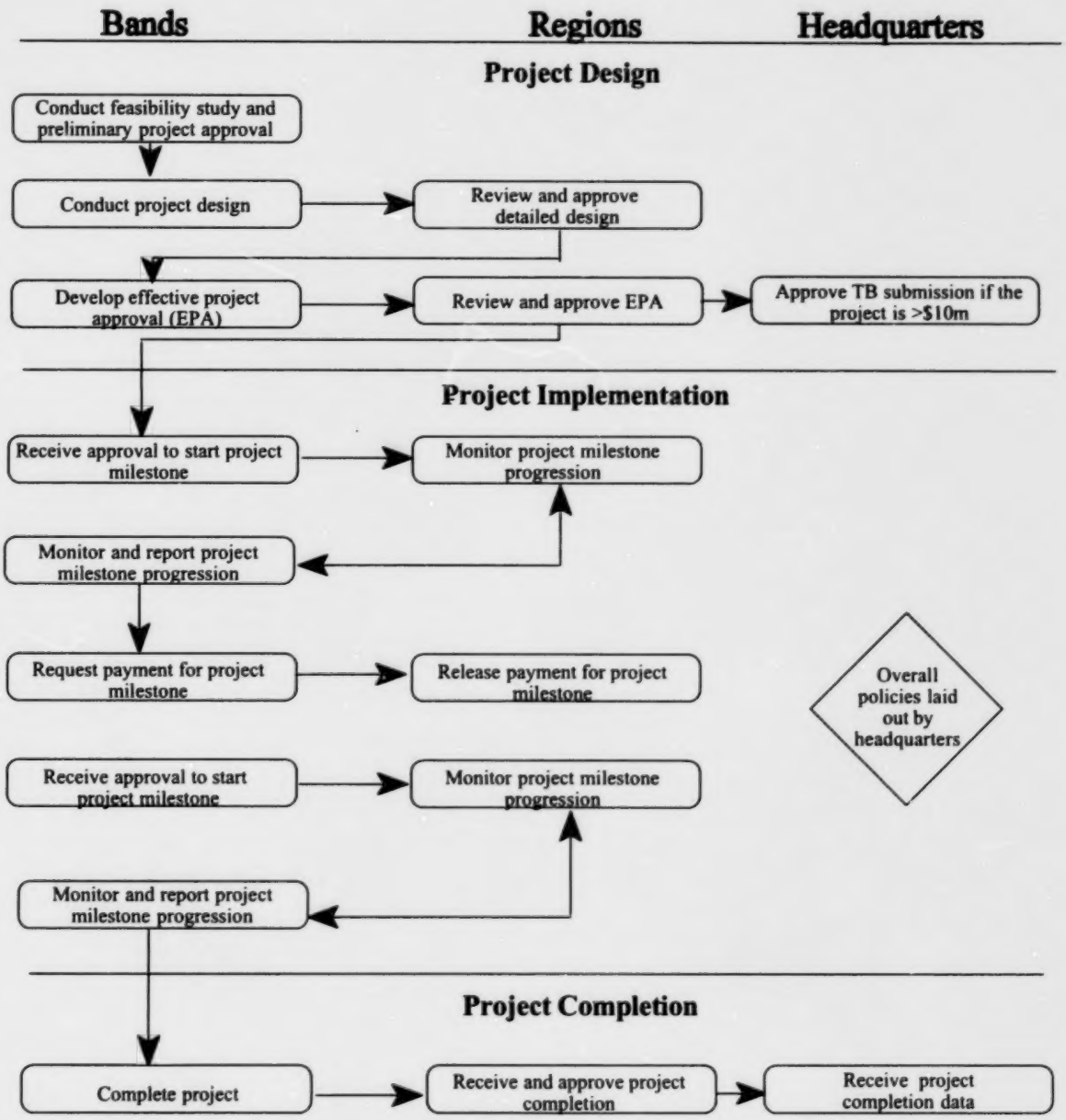
Capital Projects Funding Mechanism

Bands **Regions** **Headquarters**


Determine needs for funding
Approve funding for projects/plans and determine appropriate funding mechanism
Finalize funding arrangements
Finalize funding arrangements
Development of generic funding arrangement models
Approve funding and sign funding arrangement
Review funding arrangement in detail with bands

Capital Projects Funding Mechanism			
Process Step	**Objective**	**Controls**	**Assessment**
Determine and prioritize needs for funding	To ensure that the future allocation of funds for capital projects is prioritized based on selected needs.	Based on long term capital plan.	• A priority rating is assigned to each non-core project. • The regional standard guide ensures that projects are prioritized on a health and safety basis.
Approve funding for project plans and determine appropriate funding mechanism	To ensure bands receive maximum benefit from funding and to minimize the risk of the department.	Ensure that a project manager has been appointed. Ensure that the band has historically complied to terms & conditions. Justify funding mechanism selected.	• Capital projects must pass through a formal approval process before funding can be authorized. Adherence to process ensures that appropriate documentation has been received. • Compliance with reporting requirements is monitored to ensure future funding is not released unless the reporting requirements are met. • Information regarding the band's project history, management and technical capabilities and results of audit reviews is considered in the approval process but is not documented.
Finalize funding arrangements	To ensure that both parties agree on the terms & conditions as well as the funding mechanism.		• All terms and conditions are integrated into the project plan which forms part of the amendment to an agreement or a separate agreement.
Approve funding and sign funding arrangement	To legally bind both parties into a contract agreement.	Approve the funding arrangement. Agreement which must be: • dated; and • signed in presence of authorized individuals.	• Entry to TPMS which allows release of funds is only made upon receipt of a duly completed arrangement which is either a notice to budget adjustment or an amendment to the agreement.
Review funding arrangement in detail with bands	To ensure that the bands understand the terms and conditions of the funding arrangements.		• The project plan is finalized with the band before issuance of an amendment or agreement.
Development of generic funding arrangement models	To generate and review standard funding arrangements for the funding of capital projects.		• Regions have standard agreements for all types of funding arrangements.

Capital Projects Implementation


Bands
Regions
Headquarters
Project Design
Conduct feasibility study and preliminary project approval
Conduct project design
Review and approve detailed design
Develop effective project approval (EPA)
Review and approve EPA
Approve TB submission if the project is >$10m
Project Implementation
Receive approval to start project milestone
Monitor project milestone progression
Monitor and report project milestone progression
Request payment for project milestone
Release payment for project milestone
Overall policies laid out by headquarters
Receive approval to start project milestone
Monitor project milestone progression
Monitor and report project milestone progression
Project Completion
Complete project
Receive and approve project completion
Receive project completion data

Capital Projects Implementation - Project Design			
Process Step	**Objective**	**Controls**	**Assessment**
Conduct feasibility study	To ensure that various options to capital projects have been assessed.	An options analysis is carried out and analysed. Class C estimates.	• A feasibility study is conducted, if considered necessary, once a need is identified. • Real Property Services for DIAND reviews the feasibility study.
Negotiate plans			
Initiate preliminary project approval	Accumulate and present the criteria and the data necessary to design, qualify and refine the conceptual design.	Preliminary project approval form. Detailed description of the project background: • location; • existing facilities; and • identification of needs in relation to this project.	• Plan forms part of the arrangement. Any issues regarding technical abilities or project management are addressed at this level.

Capital Projects Implementation - Project Design			
Process Step	**Objective**	**Controls**	**Assessment**
		Project details should be submitted including: • option analysis; • sitting options; • environmental assessment review process; • disposition of existing facilities; • project implementation; and • project control: project management arrangements such as schedule, cashflow, method of construction, project management team, terms and conditions of funding arrangements, etc.	• Each region has developed a procedures manual containing sufficient and appropriate information to ensure all controls as noted will be considered. • Project submissions are reviewed by both Funding Services and Real Property Services for DIAND. • Real Property Services reviews the environmental assessment, level of service standards and costs contained within the project design study.

Capital Projects Implementation - Project Design			
Process Step	**Objective**	**Controls**	**Assessment**
		• Comments from reviewing agencies for specific projects (Health Canada, Environment Canada, Labour Canada); • Project costs should be submitted: • Cost breakdown (Class C estimates) for recommended option; • Cash flow; • Breakdown of planning and design costs; • Risk elements; and • Annual facilities O&M costs.	

Capital Projects Implementation - Project Design			
Process Step	**Objective**	**Controls**	**Assessment**
Conduct the detailed design and develop the effective project approval (EPA)	Obtain class "B" cost estimates by presenting the original design approval and updates based on the pre-design study and investigations identifying any changes from the original concept or cost. Identify the variances and reasons.	Submit: • Information relating to previous approvals; • design description; • codes, standards and regulations; • site/land requirements; • project Implementation; • environmental screening decision form; • class "B" cost estimates; • cash flow; • cost comparison with the preliminary approval estimates; • risk elements; • project management arrangements; • O&M plan; and • ensure compliance with level of service standards.	• The same approval process is required for each phase of a project.

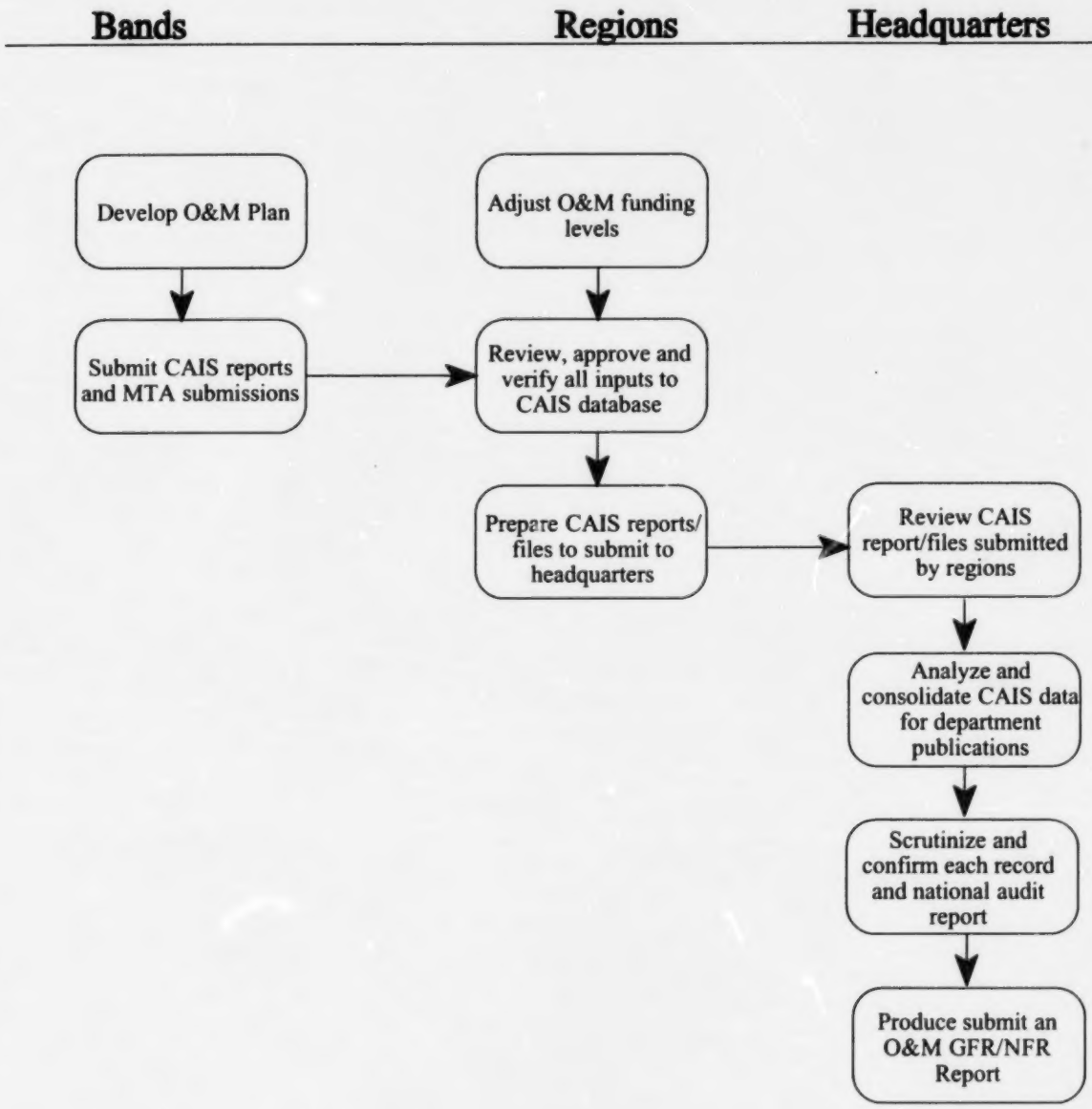
Capital Projects Implementation - Project Design			
Process Step	**Objective**	**Controls**	**Assessment**
Review and approve EPA	Determine the eligibility of funding for the capital project, that if funded, would result in the construction or acquisition of an asset in accordance with the scope of work, design concepts and level of service standards contained within a previously approved design project.	Review and approve the adequacy and thoroughness of the information received by the bands.	
Approve TB submission if project $10 million	To comply with statutory requirements.		• Projects in excess of $10 million are rare. Where a project exceeds $10 million, headquarters and Treasury Board approvals are required. • Once region has obtained approval from headquarters, a report is prepared for the Minister and Deputy Minister and the submission is forwarded to the Treasury Board for approval.

Capital Projects Implementation			
Process step	**Objective**	**Controls**	**Assessment**
Receive approval to start project	To ensure approval to start the project has been obtained.	Receive approval from regional office to start the acquisition/ construction design.	• Completeness of information is reviewed by the Funding Services and Real Property Services for DIAND.
Monitor project progression	To ensure that further advances for the cash management are justified and all variances are accounted for and justified (differences between work planned and completed work - time & cost).	Review and assess regular progress reports.	• For core funded projects, monitoring is minimal. Bands are required to control the delivery of these projects. Some bands may solicit assistance from Tribal Council technical services or hire an external consultant. • For non-core funded projects, monitoring is performed by the region. Progress reports are required to be submitted to the region or are prepared by the region. Real Property Services for DIAND are often extensively consulted during this process if not directly involved.
Monitor and report project progression	To ensure that the project is progressing according to the terms of agreement.	Assess progress, prepare and submit the results to the regions using regular progress reports.	
Request payment for project milestone 2	To obtain funding as agreed to in the Funding Arrangement.		
Release payment for project	To ensure that adequate funding is provided for phase 2 and to ensure that department obligations regarding the funding arrangement are fulfilled.		• Funding Services within regions are responsible for ensuring cash flows are consistent with pre-determined requirements.

Capital Projects Implementation			
Process step	**Objective**	**Controls**	**Assessment**
Receive approval to start next phase	To ensure approval to start the project has been obtained.	Receive approval from regional office to start the project phase 2.	• If project is broken down into phases, each phase is subject to the same approval process as the initial project submission.
Monitor project progression	To ensure that further advances for the cash management are justified and all variances are accounted for and justified (differences between work planned and completed work - time & cost).	Review and assess regular progress reports.	• For core funded projects, monitoring is minimal. Bands are required to control the delivery of these projects. Some bands may solicit assistance from Tribal Council technical services or hire an external consultant. • For non-core funded projects, monitoring is performed by the region. Progress reports are required to be submitted to the region or are prepared by the region. Real Property Services for DIAND are often extensively consulted during this process if not directly involved.
Monitor and report project progression	To ensure that the project is progressing according to the terms of agreement.	Assess progress, prepare and submit the results to the regions using regular progress reports.	

Capital Projects Implementation - Project Completion			
Process Step	**Objective**	**Controls**	**Assessment**
Complete project	To ensure that the project is completed according to the terms and conditions in the funding arrangements and complies with the levels of service standards.	Prepare and submit : • Certificate of completion; and • Changes in capital assets form to update CAIS.	• For core funded capital projects, completion reports are not submitted to the regions. Terms and conditions of funding arrangements require the submission of completion reports. • For non-core funded capital projects, completion reports are also required and, in some cases, submitted to the regions.
Review and approve project completion	To ensure that the project is completed according to the terms and conditions in the funding arrangements and complies with the levels of service standards.	Ensure adequate information is received to review and assess the project completion. Review and assess : • Certificate of completion; and • changes in capital assets form. Reflect changes to: • Five-year Capital Plan (annually); and • CAMS: CAIS and ACRS. Prepare Annual Maintenance Management Plan for future O&M funding.	• Certificates of completion are used to update CAIS. Where a certificate of completion is not submitted, regions will use original plans and progress reporting for information. In some cases, bands will submit a completed CAIS update form. • The five year capital plan is reviewed before the new fiscal year to ensure the new plan for the band is amended for completed projects.
Receive project completion data	To ensure inventory data is accounted for.	Receive and process the following forms received from the regions : • CPMS updates: CAIS and ACRS; • Five-year Capital Plan; and • Annual Maintenance Management Plan.	

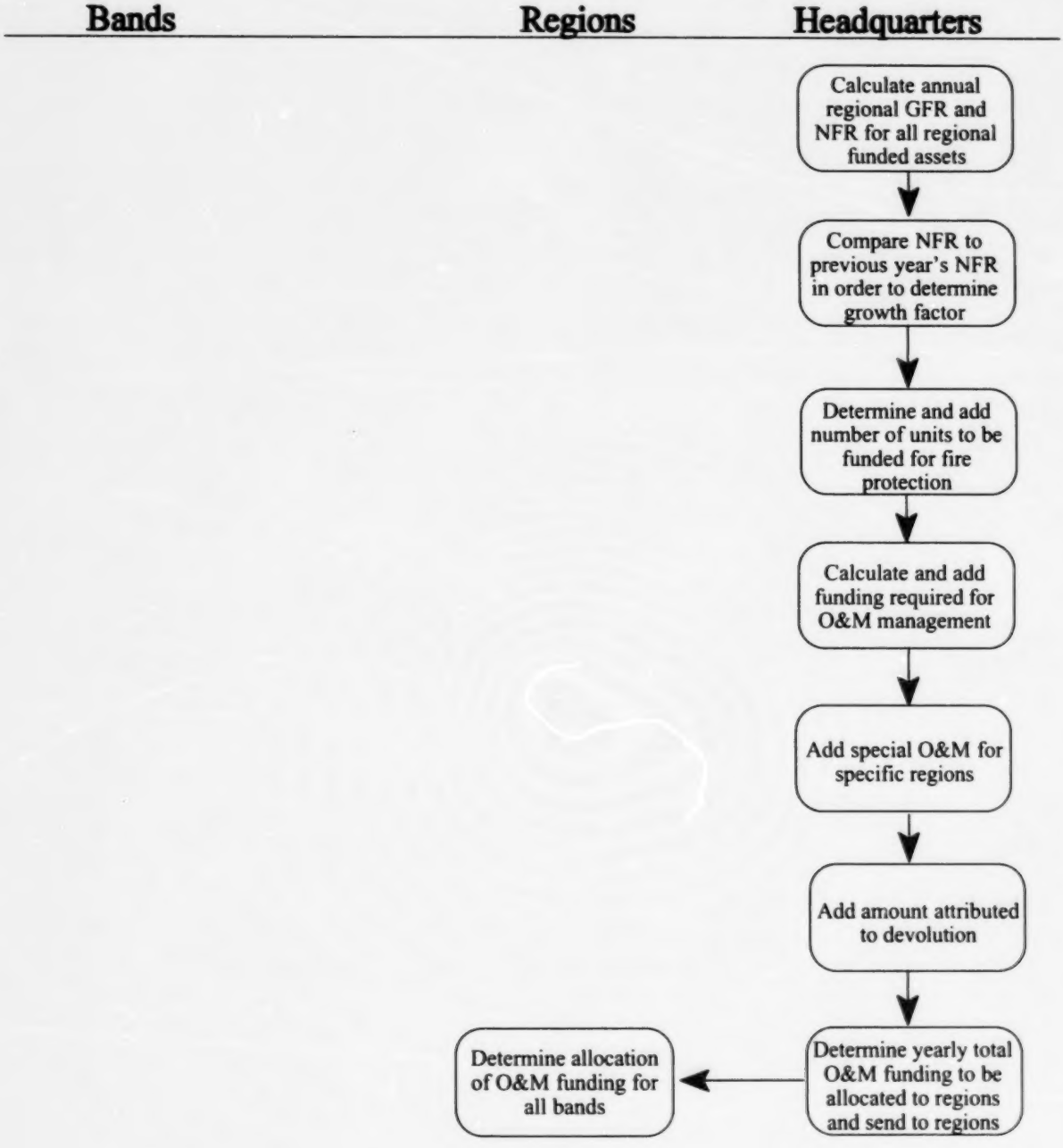
O&M Planning


Bands
Regions
Headquarters
Develop O&M Plan
Submit CAIS reports and MTA submissions
Adjust O&M funding levels
Review, approve and verify all inputs to CAIS database
Prepare CAIS reports/ files to submit to headquarters
Review CAIS report/files submitted by regions
Analyze and consolidate CAIS data for department publications
Scrutinize and confirm each record and national audit report
Produce submit an O&M GFR/NFR Report

O&M Planning			
Process Step	**Objective**	**Control**	**Assessment**
Develop O&M Plan	To identify the amount of future O&M funding required.	Regions are to put in place a compliance regime for facilities O&M expenditures. This regime should as a minimum, provide assurance that First Nations have in place the elements identified in their report on their maintenance management plan and have completed the maintenance projects identified through the ACRS process.	• Bands do not submit O&M Plans to regions. Terms and conditions in funding arrangements require First Nations to have O&M Plans.
Adjust O&M funding levels	To account for the O&M required following the addition/modification of capital assets during the year.		• O&M funding levels are adjusted for certain types of assets. • CAIS is used as the basis of information for O&M funding to bands.
Submit CAIS reports and MTA submissions	To communicate and report to the regional office the details concerning the addition/modification of new capital assets and the municipal type agreements.		• MTAs are reviewed periodically for their legitimacy and accuracy. • New MTAs are reviewed upon their receipt by Real Property Services for DIAND and Funding Services.
Review, approve and verify all inputs to CAIS database	To ensure that the additions/modifications to the CAIS database are conform to the database standards and that all new assets entered in the system are eligible for future O&M funding.		• After completion of a Capital Project, bands submit a CAIS form to the region. A CAIS Database Change Request Form is then filled out and sent to be entered in the database. • ACRS forms are submitted by October 31 of each year for all the assets on which a formal inspection was performed.

O&M Planning			
Process Step	**Objective**	**Control**	**Assessment**
Prepare CAIS reports/files to submit to headquarters	To communicate to headquarters the amount of future O&M funding required.		• CAMS is a very efficient process. The CAIS data allows the proper calculation of the NFR for the future maintenance of assets.
Review CAIS report/files submitted by regions	To ensure that all entries in the CAIS database comply with the standards and that all new assets entered in the system are eligible for funding.		• Not applicable at the regional level.
Analyse and consolidate CAIS data for department publications	To agglomerate all the CAIS data into reports for publication.		
Scrutinize and confirm each record and national audit report	To ensure that all entries in the CAIS database comply with the standards and that all new assets entered in the system are eligible for funding.		
Produce and submit an O&M (GFR/NFR) report	To communicate the future amount of O&M funding required.	Submission of O&M Forecast Report.	• Not applicable at the regional level.

O&M Resource Allocation

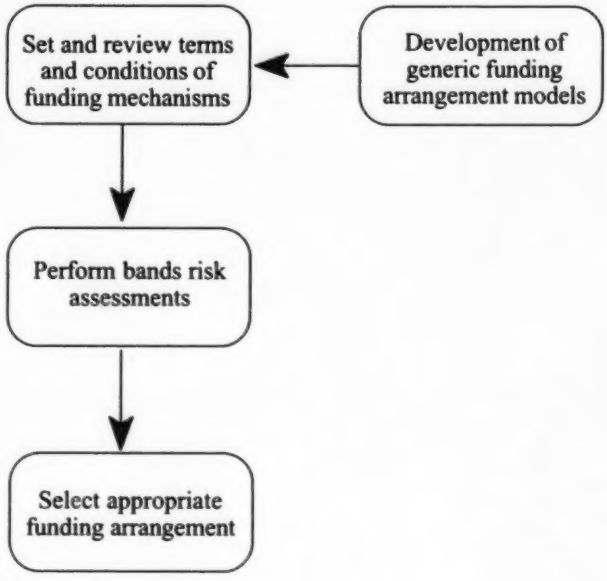

Bands
Regions
Headquarters
Calculate annual regional GFR and NFR for all regional funded assets
Compare NFR to previous year's NFR in order to determine growth factor
Determine and add number of units to be funded for fire protection
Calculate and add funding required for O&M management
Add special O&M for specific regions
Add amount attributed to devolution
Determine yearly total O&M funding to be allocated to regions and send to regions
Determine allocation of O&M funding for all bands

O&M Resource Allocation			
Process Step	**Objective**	**Control**	**Assessment**
Calculate annual regional GFR and NFR for all regional funded assets			• Not applicable at the regional level.
Compare NFR to previous year's NFR in order to determine growth factor	To determine the increase in funding requirement for all regions (approximately 2.8%).	All variances which are greater than 5% should be explained in the verification report.	• A percentage of 2.8% of the total NFR is maintained at the Region for projects that are to be completed during the current year.
Determine and add number of units to be funded for fire protection	To ensure that funding is provided to protect houses against fire disasters.	Fire protection is based on a unit cost ($80) per house. The number of units is obtained from the current year Capital Management Data Base update.	• A part of the $80/house is distributed to the bands in order to perform inspections of their buildings or to assist the bands in operating their own fire departments. Awareness training is provided to the bands.
Calculate and add funding required for O&M management	To address maintenance management, ACRS inspections, education facilities rental etc.	This is calculated as a percentage (3%) of the total of the O&M base, volume and fire protection funding.	• Maintenance Management funding is held in some regions in order to develop maintenance plans and operator training programs such as the Circuit Rider Program.
Add special O&M for specific regions	To provide some regions for particular O&M items that do not form part of the GFR/NFR calculations.	Special funding is considered on a case-by-case basis by headquarters on an annual basis.	• Some assets may be allocated special funding depending on the needs to perform maintenance.

O&M Resource Allocation			
Process Step	**Objective**	**Control**	**Assessment**
Add amount attributed to devolution	To provide funding to regions in Vote 15 Facilities O&M - Infrastructure for devolution of technical services equal to the amount that was reduced from their Vote 5 Regional Technical Services' budget in the previous year.		
Determine yearly total O&M funding to be allocated to regions and send to regions	To communicate to regions the yearly amount of funding which they will receive.		• Not applicable at the regional level.
Determine allocation of O&M funding for all bands	To communicate to bands the yearly amount of funding which they will receive.		• The allocation of funding to bands is determined by the calculation of the NFR from the CAMS data. • Major repairs fall under Capital Projects. • Some factors such as the age of the asset, the materials used during construction, the quality of the construction are not taken into account when calculating the NFR.

O&M Funding Mechanism

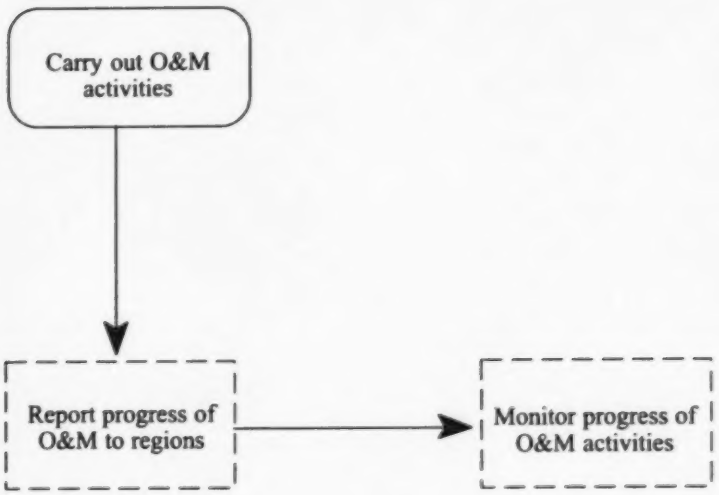
Bands **Regions** **Headquarters**


Set and review terms and conditions of funding mechanisms
Development of generic funding arrangement models
Perform bands risk assessments
Select appropriate funding arrangement

O&M Funding Mechanism			
Process Step	**Objective**	**Control**	**Assessment**
Set and review terms and conditions of funding mechanisms	To develop and improve appropriate funding arrangements available to bands for the funding of operations and maintenance.		• O&M funds are allocated to bands following the specific arrangement under which the band operates (CFA, AFA or FTA). • The bands only report on the total amount of funding spent towards O&M.
Perform bands risk assessments	To ensure bands receive maximum benefit from funding and to minimize the risk of the department.		• Unless a band requires assistance to perform maintenance, Regions will assume that the band can carry out O&M activities.
Select appropriate funding arrangement	To ensure bands receive maximum benefit from funding and to minimize the risk of the department.		• The only assessment of the appropriateness of the selected funding arrangement (CFA, AFA or FTA) occurs during the yearly audits. • Bands can transfer O&M funding to other areas. • Bands, in general, only report on the total amount of funds spent on O&M activities.

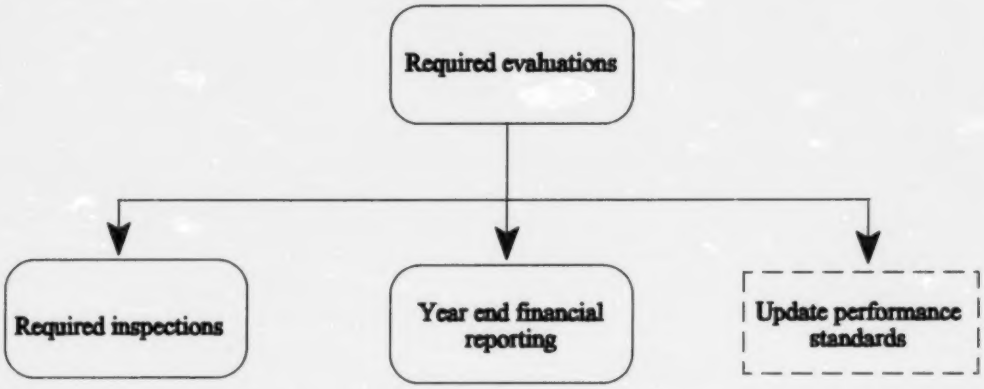
O&M Implementation

Bands **Regions** **Headquarters**



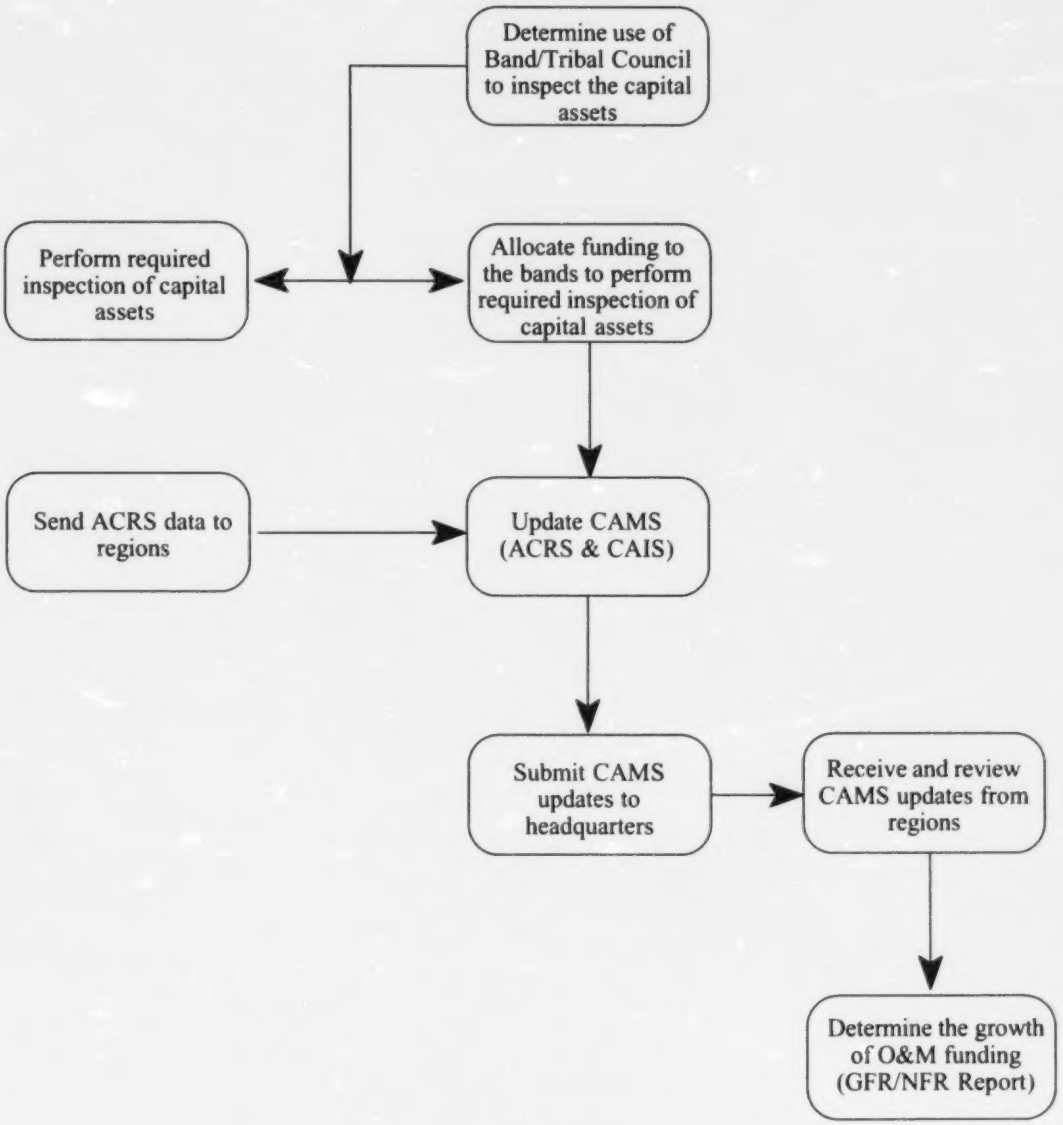
O&M Implementation			
Process Step	**Objective**	**Control**	**Assessment**
Carry out O&M activities	To ensure that the maintenance of capital assets is carried out in order to increase their lifetime.		• There are no formal procedures in place in order to carry out the O&M activities on reserve. • Fire protection activities are reported during the ACRS formal inspection for some bands. • A few bands keep logs of the O&M activities on reserve; a few bands use their O&M Plan in order to carry out O&M activities. These processes are not reported to the regions. • Maintenance management systems have been funded by regions to assist bands in their O&M plans and activities. These systems are rarely used by the bands due to the lack of technical expertise to operate and update the system.
Report progress of O&M to regions	To ensure that O&M is progressing according to the terms of agreement and that the regions are notified of any variances with the planned maintenance.	Perform and submit frequent progress reports to the regions.	• O&M activities are not reported to regions. • The only documents which can reflect O&M activities on reserve are the ACRS forms.
Monitor progress of O&M activities	To ensure that the allocation of funding for O&M is justified and all variances are accounted for.	Review and approve the progress reports submitted by the bands.	• Regions do not monitor the O&M activities on reserve.

Capital Projects and O&M Evaluation



Required Inspections

Bands **Regions** **Headquarters**

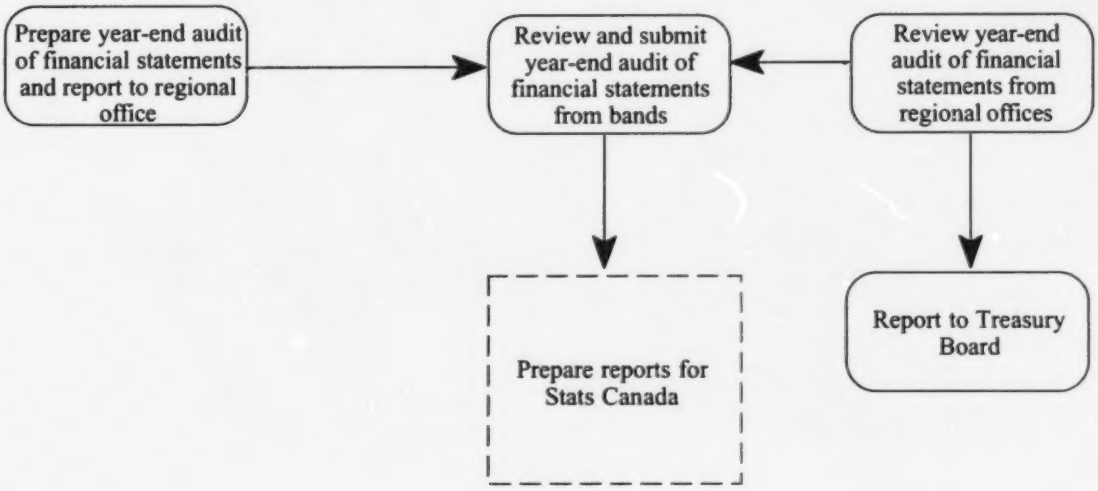

Determine use of Band/Tribal Council to inspect the capital assets
Perform required inspection of capital assets
Allocate funding to the bands to perform required inspection of capital assets
Send ACRS data to regions
Update CAMS (ACRS & CAIS)
Submit CAMS updates to headquarters
Receive and review CAMS updates from regions
Determine the growth of O&M funding (GFR/NFR Report)

Capital Projects and O&M Evaluation - Required Inspections			
Process Step	**Objective**	**Control**	**Assessment**
Determine use of Tribal Council to inspect the capital assets			• 20% of capital assets are inspected annually by the Tribal Councils or external consultants. • The remaining 80% are reviewed annually by the band. • Tribal Councils may have technical services but, in some cases prefer not to be involved in the ACRS process.
Allocate funding to the bands to perform required inspection of capital assets	To ensure that capital assets are maintained.	Inspectors are contracted to evaluate 20% of all capital assets each year within a five-year period.	• Regions will provide funding to Tribal Councils who perform the required inspections. • Real Property Services for DIAND coordinates ACRS for all other bands.
Perform required inspection of capital assets	To ensure that capital assets on reserve comply with levels of service standards.	Bands are required to inspect the remaining 80% of all capital assets each year. Compliance with level of service standards.	• The ACRS inspection is performed and reported to the Region on an annual basis by the Tribal Councils or Real Property Services for DIAND. • Reporting on the inspections performed by the bands on the remaining 80% of the assets does not occur. There are no processes in place to ensure that these inspections are performed.
Send ACRS forms to regions			• The ACRS forms have to be submitted to the region by the end of October. The deadlines are usually met. The Tribal Councils ensure that the forms are submitted on time.
Update CAMS (ACRS & CAIS)		The ACRS Forms should be completed and submitted by the bands by March 30th to the CAMS regional system administrator. Ensure that CAIS and ACRS Forms have been submitted for each capital project within the year.	• ACRS forms are entered into CAMS at the end of October. • In some instances, a ACRS update will require an update to CAIS. Regions are careful in reviewing the ACRS forms since any change in the status of an asset may affect the amount of O&M funding required. • CAIS data is entered into CAMS annually.

Capital Projects and O&M Evaluation - Required Inspections			
Process Step	**Objective**	**Control**	**Assessment**
Submit CAMS updates to headquarters		Electronically or manually submit information to CAMS following the CAIS and CMDB Procedures by May 15.	• Regions submit information on a timely basis.
Receive and review CAMS updates from regions		The system administrator acknowledges receipt of all databases information and updates the system.	• Not applicable at the regional level.
Determine the growth of O&M funding (GFR/NFR Report)	To initiate O&M Planning and resource allocation.		

Year End Financial Reporting

Bands **Regions** **Headquarters**


Prepare year-end audit of financial statements and report to regional office
Review and submit year-end audit of financial statements from bands
Review year-end audit of financial statements from regional offices
Prepare reports for Stats Canada
Report to Treasury Board

Capital Projects and O&M Evaluation - Year End Financial Reporting			
Process Step	**Objective**	**Control**	**Assessment**
Prepare year-end audit of financial statements and report to regional office	To determine the financial status of the capital projects and to ensure that funds were adequately managed.	Submission of year-end financial statements to regional office including the changes in capital assets.	• All bands who receive greater than a specified amount of funding must submit audited financial statements. • An audit review is completed by Funding Services to determine if remedial action is required. • An audit status report is prepared which tracks the receipt of all financial statements. If the statements are not received by July 15, a freeze is placed on non-mandatory funding.
Review and submit year-end audit of financial statements from bands (regions)	To determine the financial status of the capital projects and to ensure that funds were adequately managed.	Submission of year-end financial statements to headquarters.	• Band financial statements are not submitted to headquarters. • A summary indicating the number of statements received and outstanding is submitted to headquarters every two weeks.
Review year-end audit of financial statements from regional offices (headquarters)	To determine the financial status of the capital projects and to ensure that funds were adequately managed.	Receipt of financial reports and ensure compliance with reporting agreement to Treasury Board.	• Not applicable at the regional level.
Report to Treasury Board	To determine the financial status of the capital projects and to ensure that funds were adequately managed.		• Not applicable at the regional level.

TERMS OF REFERENCE

TERMS OF REFERENCE

AUDIT OF CAPITAL PROJECTS AND O&M FUNDING MANAGEMENT REGIMES

BACKGROUND:

Chapter 23 of the November 1995 report of the Auditor General noted the weak accountability framework for the capital and O&M activity and the need to control risk and to ensure that capital assets are properly maintained. As part of its response to the issues raised by the Auditor General, the department will undertake an audit of the management regimes in place for the capital facilities and maintenance activity to identify the weaknesses and recommend corrective measures.

The capital activity involves the construction, operation and maintenance of community infrastructure such as schools, water, sanitation, electrification, roads, community buildings and fire protection as well as the capacity to provide special services such as flood and erosion control. DIAND's responsibilities include contributing to the funding of band-managed projects, ensuring the provision of adequate professional and technical expertise, ensuring that value for money is received, controlling risk, monitoring band-initiated maintenance management programs and monitoring compliance with the terms and conditions of funding agreements.

Based on the five-year capital plans of the communities, projects are approved for funding in light of the priority of the project and the available resources. Priority is given to health, safety, recapitalization and growth in that order.

The delivery of the capital activity is the responsibility of First Nations. Responsibility for public works and infrastructure is one of the items included in the scope of negotiations under the Government of Canada's ***Approach to Inherent Rights and Negotiation of Aboriginal Self-Government.*** However, given the increased pressure on resources, there is a need for the department to improve its performance in implementing the terms and conditions contained in the funding arrangements and ensuring that there is proper accountability for the results of the expenditure of capital and O&M funds.

A strategic review of the capital activity was completed during the 1994-1995 fiscal year. This exercise resulted in defining objectives and performance indicators for each sub-activity of capital. This work is currently being reviewed as part of the work on Financial Transfer Agreements.

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NEED: This project will assist in responding to the concerns raised in the Auditor General's report related to the implementation by regions of departmental procedures for funding capital and O&M activity. In particular, there is a requirement to identify the weaknesses in procedures related to:

1. risk assessment;
2. value for money;
3. project delivery;
4. ensuring that adequate maintenance is carried out; and,
5. compliance with departmental requirements in the planning, implementation and evaluation of capital projects.

SCOPE: The project will cover all regions with the exception of the NWT. The project will focus on a review of all regional procedures related to the review (including risk assessment of risk and value for money), approval, funding, monitoring, auditing and evaluating of community maintenance activities and capital projects funded by the department and compliance with the funding terms and conditions. If, in the conduct of the project, information is obtained or views are formed on the other issues raised by the Auditor General, e.g., operation targets, regional allocations, the use of expertise, then the relevant comments or recommendations may be included in the report.

ISSUES: The project report will identify on a region by region basis the processes and procedures used by regional officials to:

- set the terms and conditions under which operations and maintenance funding is provided to First Nations;
- monitor, audit and evaluate the expenditure of operations and maintenance funding by First Nations;
- assess value for money and manage the risk associated with the delivery of capital projects by First Nations;
- set the terms and conditions under which capital projects are funded;
- monitor, audit and evaluate the implementation of capital projects; and,
- identify best practices.

.../3

APPROACH: The approach will be to construct generic models for the different activities to be reviewed, based on funding arrangement models and policy and other guidance provided to the regions. These models will then be used to assess regional practices. The assessment will identify the extent to which the models and policies are adequate to meet the concerns identified by the Auditor General, the performance of the regions in meeting the current requirements to administer the capital activity and best practices. The objective will be to provide assurances that capital funding is being used effectively and efficiently with due regard for risk and value for money.

In addition to regional officials, a limited number of First Nations and Tribal Councils will be requested to participate by sharing their experience.

A Project Advisory Committee will be established to advise the project team. Membership will include:

- Indian Programming and Funding Allocations;
- Resource Management and Reporting Directorate;
- Transfer Payments;
- Real Property Services;
- Information Quality and Research; and
- Regional representatives.

PHASE: The audit will be conducted in three phases. The first phase will consist of a preliminary review of relevant documentation, the development of generic models and the preparation of the questions to be used at the regional level, as well as a timetable. The second phase will consist of the actual audits in the regions. The third phase will involve the analysis of the results, identification of best practices and related recommendations and the preparation of the regional and final reports.

COST: The project will be implemented using contracted and DAEB resources and will be managed by DAEB. It is estimated that the project will cost between $100,000 and $125,000.

APPROVED BY:

J. Stagg
Assistant Deputy Minister
Policy and Strategic Direction
January 12, 1996

Action Plan

AUDIT AND EVALUATION/VERIFICATION INTERNE ET ÉVALUATION

REQUEST FOR ACTION PLAN/DEMANDE DE PLAN D'ACTION

PROJECT/PROJET: 95 /06
DATE SENT/DATE D'ENVOI: 97-05-29
DATE DUE/ÉCHÉANCE: 97-06-05

PROJECT TITLE/TITRE DU PROJET: Audit of the Capital Projects and Operating and Maintenance Funding Management Regimes
REGION OR BRANCH/RÉGION OU DIRECTION GÉNÉRALE: Socio-Economic Policy and Programming Branch

(1) RECOMMENDATIONS / RECOMMANDATIONS	(2) REPORT / RAPPORT PAGE NO.	(3) ACTION PLAN / PLAN D'ACTION	(4) RESPONSIBLE MANAGER / GESTIONNAIRE RESPONSABLE (TITLE / TITRE)	(5) PLANNED COMPLETION DATE / DATE PRÉVUE DE MISE EN OEUVRE
1(a) The Director General of the Socio-Economic Policy and Programming Branch should replace the current target exercise and clearly establish the objective for funding capital projects on a long-term basis which can then be translated into shorter term operational objectives.	14	Complete review of current operational targets and develop revised targets as necessary and performance measurement regime. (Comments:) The department has undertaken a review of its methodology for the setting of operational targets for all major components of the on-reserve capital facilities and maintenance activity. This review consisted of a two-step process which involved an initial step to develop an updated assessment of needs and a subsequent step to develop revised targets for approval by senior management.	Director, Community Development Support: Real Property Services Consultation: Regions Finance	January 31, 1998
2. The Director General of the Socio-Economic Policy and Programming Branch in cooperation with the Director General of the Finance Branch should undertake a review to determine how funds should be best allocated to all regions. The review should clearly state both the rational for selecting the allocation method and the specific roles of the Director General of Finance and each regional office. Funding allocations for capital projects should comply with the objectives of the department.	15	Complete departmental review of its current needs based method of allocating funding to the regions. (Comments:) An updated assessment of the capital needs on reserve has demonstrated that the existing needs greatly exceed the level of available funding, and that existing regional funding allocations vary by a maximum of 2-3 percent from current prorated shares of regional needs. A decision will be required to determine if the department should adjust current funding allocations. Because of funding available and the impact of changing the allocation system would be minimal, a draft paper recommends that the existing methodology for allocating funding be maintained.	Director, Community Development Support: Real Property Services Consultation: Regions Finance	January 31, 1998

AUDIT AND EVALUATION/VERIFICATION INTERNE ET ÉVALUATION

REQUEST FOR ACTION PLAN/DEMANDE DE PLAN D'ACTION

PROJECT/PROJET: 95 /06
DATE SENT/DATE D'ENVOI: 97-05-29
DATE DUE/ÉCHÉANCE: 97-06-05

PROJECT TITLE/TITRE DU PROJET: Audit of the Capital Projects and Operating and Maintenance Funding Management Regimes
REGION OR BRANCH/RÉGION OU DIRECTION GÉNÉRALE: Socio-Economic Policy and Programming Branch

(1) RECOMMENDATIONS / RECOMMANDATIONS	(2) REPORT / RAPPORT PAGE NO.	(3) ACTION PLAN / PLAN D'ACTION	(4) RESPONSIBLE MANAGER / GESTIONNAIRE RESPONSABLE (TITLE / TITRE)	(5) PLANNED COMPLETION DATE / DATE PRÉVUE DE MISE EN OEUVRE
3. The Director General of the Socio-Economic Policy and Programming Branch in consultation with the Director General of the Finance Branch should clearly define its approach for the inclusion of certain types of infrastructure in the First Nation's master funding arrangement.	15	Complete work with Transfer Payments to establish definitions for core and non-core activities and their related appropriate management regimes. (Comments:) Preliminary discussions have taken place. Establishment of definitions would need to take place within the context of FTA implementation.	Director, Community Development; and Director, Transfer Payments	December 31, 1997
5. The Director General of the Socio-Economic Policy and Programming Branch should review the feasibility and financial impact of allowing preliminary asset information in Capital Asset Inventory System (CAIS).	17	Finalize assessment on the utility and financial implications of adding capital projects in progress to CAIS. (Comments:) A consultation process was undertaken with the regions in order to assess the utility and implications of adding capital projects in progress to CAIS. The results of this study and the recommendation will be presented to senior management for final approval.	Director, Community Development Support: Real Property Services	November 15, 1997

AUDIT AND EVALUATION/VERIFICATION INTERNE ET ÉVALUATION

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DATE DUE/ÉCHÉANCE: 97-06-05

PROJECT TITLE/TITRE DU PROJET: Audit of the Capital Projects and Operating and Maintenance Funding Management Regimes
REGION OR BRANCH/RÉGION OU DIRECTION GÉNÉRALE: Socio-Economic Policy and Programming Branch

(1) RECOMMENDATIONS / RECOMMANDATIONS	(2) REPORT / RAPPORT PAGE NO.	(3) ACTION PLAN / PLAN D'ACTION	(4) RESPONSIBLE MANAGER / GESTIONNAIRE RESPONSABLE (TITLE / TITRE)	(5) PLANNED COMPLETION DATE / DATE PRÉVUE DE MISE EN OEUVRE
7. The Director General of the Socio-Economic Policy and Programming Branch in consultation with the Director General of the Finance Branch and the Regional Directors General should develop a standard checklist for each project file. The checklist should include: • minimum documentation and consideration requirements for the project; and • a statement communicating the responsibilities for each level of authority.	18	The department will develop a generic checklist for project files recognizing operational variations at the regional level. (Comments:) The generic checklist will be developed in consultation with Finance Branch, Real Property Services and the regions. The checklist will incorporate any necessary improvements leading from the Auditor General's follow-up audit.	Director, Community Development Support: Real Property Services Consultation: Regions Finance	November 30, 1997

AUDIT AND EVALUATION/VERIFICATION INTERNE ET ÉVALUATION

REQUEST FOR ACTION PLAN/DEMANDE DE PLAN D'ACTION

PROJECT/PROJET: 95 /06
DATE SENT/DATE D'ENVOI: 97-05-29
DATE DUE/ÉCHÉANCE: 97-06-05

PROJECT TITLE/TITRE DU PROJET: Audit of the Capital Projects and Operating and Maintenance Funding Management Regimes
REGION OR BRANCH/RÉGION OU DIRECTION GÉNÉRALE: All Regions

(1) RECOMMENDATIONS / RECOMMANDATIONS	(2) REPORT / RAPPORT PAGE NO.	(3) ACTION PLAN / PLAN D'ACTION	(4) RESPONSIBLE MANAGER / GESTIONNAIRE RESPONSABLE (TITLE / TITRE)	(5) PLANNED COMPLETION DATE / DATE PREVUE DE MISE EN OEUVRE
1(b) Regional Directors General should measure performance against these objectives and report the results to the Director General of the Socio-Economic Policy and Programming Branch.	14	Complete review of current operational targets and develop revised targets to use as a performance measurement. (Comments:) HQ and regions will review and implement a consistent regime to measure performance against program targets and objectives.	RDGs <u>Support:</u> Community Development	January 31, 1998
4. The Regional Directors General should ensure that regional capital plans reflect projects that are supported by the First Nations community physical development plans and the objectives established by the department.	16	In reviewing and approving major capital projects the regions will ensure that the projects are consistent with the community development plan.	RDGs	March 31, 1998
6. The Regional Directors of Funding Services should enforce the requirement for a First Nation's maintenance management plan. Where a First Nation recommends a suitable alternative, the alternative should be clearly articulated in the terms and conditions and enforced, if appropriate.	17	Implement capital operating and maintenance compliance regime. (Comments:) An interim compliance guideline for the operation and maintenance of First Nation Assets has been developed and distributed to the regions. This guideline will be incorporated into the revised departmental O&M directive and promulgated by March 31, 1998. All regions are required to have a compliance process for facilities O&M by 1998-1999.	RDGs <u>Support:</u> Finance Real Property Services Community Development	March 31, 1999
8(b) The Regional Directors of Funding Services should ensure the risk assessment and conclusion are documented in regional capital project files. The Regional Directors of Funding Services should ensure the risk assessment and conclusion are documented in regional capital project files.	18	Following the November 1995 review by the OAG, all regions have taken steps to ensure that risk assessments and conclusions are properly documented in project files.	RDGs	April 30, 1997

AUDIT AND EVALUATION/VERIFICATION INTERNE ET ÉVALUATION

REQUEST FOR ACTION PLAN/DEMANDE DE PLAN D'ACTION

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DATE SENT/DATE D'ENVOI: 97-05-29
DATE DUE/ÉCHÉANCE: 97-06-05

PROJECT TITLE/TITRE DU PROJET: Audit of the Capital Projects and Operating and Maintenance Funding Management Regimes
REGION OR BRANCH/RÉGION OU DIRECTION GÉNÉRALE: Finance Branch

(1) RECOMMENDATIONS / RECOMMANDATIONS	(2) REPORT / RAPPORT PAGE NO.	(3) ACTION PLAN / PLAN D'ACTION	(4) RESPONSIBLE MANAGER / GESTIONNAIRE RESPONSABLE (TITLE / TITRE)	(5) PLANNED COMPLETION DATE / DATE PREVUE DE MISE EN OEUVRE
8(a) The Director of the Transfer Payments Directorate at headquarters should establish basic guidelines for the development of terms and conditions in funding arrangements based on an assessment of the First Nation.	18	Management assessments being completed with each First Nation by March 31, 1998. Any observations to be translated into terms and conditions of funding agreements as required.	Director, Transfer Payments	March 31, 1998
9. The Director General of the Finance Branch, in consultation with the Director General of the Socio-Economic Policy and Programing Branch should finalize guidelines for regional staff related to the level of monitoring required by the department. These guidelines need to be reflected in the terms and conditions of funding arrangements.	19	The compliance guideline for the Operation and Maintenance of First Nation Capital Assets will be formally incorporated into a revised Facilities Operations and Maintenance program directive that will be promulgated in 1997-1998 by the Policy & Strategic Direction sector. Regions will be required to have a compliance process for facilities O&M in place for 1998-1999.	Director General SEPP Director General Finance	March 31, 1998 March 31, 1999

AUDIT AND EVALUATION/VERIFICATION INTERNE ET ÉVALUATION

REQUEST FOR ACTION PLAN/DEMANDE DE PLAN D'ACTION

PROJECT/PROJET: 95 /06
DATE SENT/DATE D'ENVOI: 97-05-29
DATE DUE/ÉCHÉANCE: 97-06-05

PROJECT TITLE/TITRE DU PROJET: Audit of the Capital Projects and Operating and Maintenance Funding Management Regimes
REGION OR BRANCH/RÉGION OU DIRECTION GÉNÉRALE: Information Management Branch

(1) RECOMMENDATIONS / RECOMMANDATIONS	(2) REPORT / RAPPORT PAGE NO.	(3) ACTION PLAN / PLAN D'ACTION	(4) RESPONSIBLE MANAGER / GESTIONNAIRE RESPONSABLE (TITLE / TITRE)	(5) PLANNED COMPLETION DATE / DATE PREVUE DE MISE EN OEUVRE
10. The Director General of the Information Management Branch should evaluate the benefit to First Nations for obtaining the performance information through an annual report.	19	The concept is an excellent idea. However, this recommendation is more appropriately directed toward the Directors General of Finance and SEPP. The Information Management Branch will be in a support role. *(The recommendation is more related to issues of First Nation governance rather than a specific issue for capital/O&M. It falls into the realm of "disclosure" which is one of the accountability principles, the others being " transparency" and "redress").* The Information Management Framework outlines the data requirements for Capital and O&M. The specific data elements collected are identified by the program/business experts and include substantial (& detailed) information and data on First Nation communities. IMB will reconfirm the Capital and O&M information requirements outlined in the IMF. Discussions related to the Results Based Indicators (RBI) initiative are underway. The department needs to wait the outcome of these discussions before we begin to pursue obtaining any sort of performance information through an annual report.	Director General of Finance and SEPP Support: IMB	December 31, 1997